

Cadila Healthcare Limited
Q3 FY12 Earnings Conference Call
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Moderators:

Mr. Pankaj Patel – Chairman & Managing Director, Zydus Cadila.
Dr. Ganesh Nayak – Executive Director.
Mr.

Vishal Gor :- General Manager, Investor Relations, Zydus Cadila.

Moderator : Ladies and gentlemen good day and welcome to Q3 FY12 Post Results Conference Call of Zydus Cadila. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Dr. Ganesh Nayak, COO and Executive Director of Zydus Group. Thank you and over to you sir.

Ganesh Nayak : Good evening and welcome to our post-result tele-conference for the third quarter of the year 2011-12. We have with us Mr. Pankaj Patel, Chairman and Managing Director, Cadila Healthcare Ltd., Dr. Sharvil Patel, Dy. Managing Director, Mr. Nitin Parekh, CFO and Mr.

Vishal Gor : General Manager, Investor Relations.

Let me first take you through the highlights of the operations for the quarter.

During the quarter,

- India formulations business posted sales of Rs. 4693 Mio., up by 18 %.

We launched over 15 new products, including line extensions, in Indian formulations market, of which 7 were first in India.

- We acquired 100% stake in Biochem Pharma, one of the top 40 pharma companies in India. A well-integrated pharma player, Biochem has got a presence in the antibiotics, cardiovascular, anti-diabetic and oncological segments.

With annual sales of over Rs. 260 cr., Biochem has 1200 employees (incl. field staff of 950) and a manufacturing facility at Daman,

With this acquisition, we have strengthened our presence in the Indian pharmaceutical space. We would be capitalizing on growth of acute segment where we have relatively smaller presence.

- US business posted sales of Rs. 3435 Mio., up by 45 %, backed by growth in existing products and Zynesher's sales.
- Business of JVs increased by 58 % to Rs. 1212 Mio.
- Japan business posted sales of Rs. 154 Mio., up by 44 %.
- The quarter gone by remained challenging one for our business in Europe and exports in other emerging markets which posted lower growth and also for exports of APIs, which posted negative growth mainly on account of price erosion and lower inventory off-take and de-stocking by key customers. In some of the key markets, supplies were restrained intentionally by us to mitigate the risk likely to arise due to the ongoing political crisis.

- On the regulatory filings and approvals front

We filed 5 ANDAs for US market, including 2 for nasal products, taking cumulative filings to 141.

We filed 11 new product dossiers for Brazil market, taking cumulative filings to 79

We filed 10 new product dossiers for Mexico market, taking cumulative filings to 14.

We filed 9 new product dossiers for EU market, taking cumulative filings to 132, and received 8 new product approvals for EU market, taking cumulative approvals to 82.

We also commenced supplying 7 more products from India to Spain, taking cumulative number of product supplies from India to Spain to 12.

Now let me take you through the broad financial highlights.

During the quarter, on a consolidated basis,

- The total income from operations grew by 19 % y-y to Rs. 13,832 Mio. from Rs. 11,668 Mio. last year.
- PBIDT excluding net exchange rate fluctuation loss on forward contracts and trading transactions was up by 7 % y-y to Rs. 2,821 Mio. from Rs. 2,628 Mio. last year.

- Sharp depreciation of the Indian Rupee vis-à-vis global currencies has resulted into a loss of Rs. 342 Mio. on foreign currency forward contracts and borrowings. This includes net loss of Rs. Rs. 318 Mio. on foreign currency borrowings.
- Net Profit excluding the impact of foreign exchange fluctuation loss, net of tax, was up by 7 % to Rs. 1,765 Mio. from Rs. 1,654 Mio. last year

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

Moderator : Thank you. We will now begin with the question and answer session. The first question is from the line of

Aniruddha Joshi : from Anand Rathi, please go ahead.

Aniruddha Joshi : Just had a question on your subsidiary Zydus Wellness; basically we have seen almost 17% of revenue drop for the quarter so on YoY bases, so where do you really see the major concerns coming. I guess EverYuth is facing a lot of issues but where do we see the problem sinking or the views on it?

Pankaj Patel : I think you already said we had a stiff competition going on in the EverYuth segment, particularly in the face wash and scrub area. As competitors have aggressively spent on skin care category, we decided that we would hold back our funds till that phase is over, so the growth that we saw just now has been our inactivity in the segment for some time. You must have noticed recently we have resumed our advertising and also our marketing activity in the marketplace for the Every Youth segment as well, and we are clearly looking going forward we would be on track next time this quarter onwards as far as growth is concerned.

Aniruddha Joshi : Where do you see the market share moving because I guess ITC is also entering the face wash segment and lot of new MNCs have also entered this segment. So do you see the competitive pressure hurting us substantially?

Pankaj Patel : I can tell you that though number of players have entered, growth rate of market has not significantly changed. So I think this is a fair way number of people have thought that there is an opportunity to enter and everybody started business. We believe that now the phase will come where a consolidation phase will start, and that is the time when we will become active to regain our market share what we have lost. We clearly see some signal now and we're hopeful that next quarter onwards, we will get back to growth trend.

Aniruddha Joshi : Okay in terms of our major brand Sugar Free even that brand has also seen a single-digit revenue growth or maybe a slight revenue decline in the quarter, where do you see that brand moving in terms of...?

Pankaj Patel : Brand is continued to grow it is not declining. First of all, the overall market itself has not grown as much as it used to grow. We are basically decider of these growth factors of the market and we have some strategy in place which you will hear soon, which would basically boost the growth of this category as well, and overall we clearly see that we can bring back our growth to double-digit.

Aniruddha Joshi : Okay in terms of product extension under Sugar Free delight brand the food range etc. which we had launched where do they stand in terms of revenue and the growth plan...?

Pankaj Patel : We do not generally give a specific detail about product so I would be unable to provide you the exact information, but we see all the three category products what we have, which is EverYuth Sugar Free and Nutralite all the three we clearly see that they will continue growing.

Aniruddha Joshi : Okay can you just share the may be the current revenue breakup within these three broad numbers?

Pankaj Patel : We are not sharing brand specific numbers.

Aniruddha Joshi : Okay and very lastly the ads spent, we are spending almost 28% to 30% of sales on ad spend as we are creating and investing in the category?

Pankaj Patel : Sorry, where did you get this number?

Aniruddha Joshi : From the P&L, last year's annual reports.

Pankaj Patel : Please check it is not so, it is lower than what you mentioned.

Aniruddha Joshi : Selling and distribution expenses, as well as ad spend.

Pankaj Patel : Ad spend and selling and distribution are completely different thing that is why I wanted to basically draw your attention to. It is not so that we are spending 28% on advertisement. We continue spending on advertisement and sales promotional activity and there is no decline we have seen going forward also as far as the absolute amount of spent. But as the sales will grow you will see the percentage to these expenditure sales to turnover is delivered.

Aniruddha Joshi : Okay sir. Thank you.

Moderator : Thank you. The next question is from HR Gala from Quest Investment Advisors, please go ahead.

HR Gala : Hello sir, congratulations for good set of numbers. Sir, can you just tell if the domestic sales in Q3 include that of Biochem?

Pankaj Patel : The domestic sales are includes last one week sale of Biochem which is approximately Rs. 10 crores. If you take out the Biochem sales number from the overall sales than our growth in India formulations would be 15%.

HR Gala : It is not a significant amount?
Ganesh Nayak Yeah.

HR Gala : Okay, it is not a significant amount. Second question is just referring to the notes which we have given in the accounts regarding the ForEx there are two different elements have been mentioned that profit has been higher by 30.79 crores on a consolidated basis, the cost of adoption of the accounting standard 30 and then another note says that the above results include the loss on account of foreign fluctuation of 34.17 crores on consolidated bases which you said 32.4 crores in your opening remarks I presume, so does it mean that the total element of the ForEx loss is 30.79+34.2, is my conclusion correct sir?

Pankaj Patel : Yes.

HR Gala : On the same basis in the nine months it could be 30.79+108.68?

Pankaj Patel : Yes.

HR Gala : Sir Can you just tell what was the corresponding position in the say nine months of FY 11 I believe we had gain or something?

Pankaj Patel : We will have to come up with figure let you know about it.

HR Gala : No problem I'll get in touch with Vishal. Thank you very much sir.

Moderator : Thank you. The next question is from Grishma Shah from Envision Capital, please go ahead.

Grishma Shah : Good afternoon sir first question pertains to the tax rate for the Cadila Health Care on a consolidated basis it has declined on a YoY basis, any particular reason?

Vishal Gor : Basically if you see in the stand alone results we have had a negative tax provision. This is because the higher the tax provision which we made in the earlier quarters have been reversed.

Grishma Shah : So for the full year what would be the tax rate then?

Vishal Gor : It should be in the range of 12 to 15%.

Grishma Shah : And the second question pertains to Zydus Wellness, we have been witnessing competitive pressure across the various segments that we operate in, it would be helpful if you could tell us what is the strategy that the company is implementing currently to get back to all the growth path from say FY 13 onwards?

Pankaj Patel : See because the competition entered into the skin care segment and the major players entered with huge advertisements and promotion budgets, we realized that compared to what they are spending our ad spend would be

significantly lower so if we do any activity at this stage would be riskier and our money would have got wasted. So we consciously decided not to advertise our product, not to promote our product during this period. Subsequently now that phase is over we have now began our campaign and marketing activities in the field and we are clearly seeing results of that now, so we are now very confident that going forward, we would be growing at a double-digit growth

Grishma Shah : But that is largely on the EverYuth face wash segment. What happens to Sugar Free while we are the market leaders and what is your outlook for that segment?

Pankaj Patel : Sugar Free we have some plans of launching certain new advertisement related activities, including some brand extension to basically boost the overall market size. Now I think unless we increase the market size, the market will not grow that is what we fully understand and we have some strategies in place. I cannot disclose specific details, but we have this strategies in place and you will see from this quarter onwards and the company would start showing double-digit growth.

Grishma Shah : There has the competitive in this intensity increased one foreign player and Wipro.

Pankaj Patel : We do not see a competitive activity. We have seen competitive activity in the past, but currently we are not seeing any competitive activity.

Grishma Shah : And what happens to the Nutralite given that December quarter is the key quarter for the product?

Pankaj Patel : Nutralite continues to do well, and we clearly see that the product will continue to growing we are focusing in our brand extension in that, so that we have better product mix in that area.

Grishma Shah : But has the institutional sales picked up for us, given that it was a major chunk?

Pankaj Patel : Yeah, it has continued to do well, but we are more focusing on private market because that is where the margin is are better we continue to protect our institutional sales as far as our plan, but we do not want to aggressively increase our sales in institutions.

Grishma Shah : Okay fine and thank you and good luck.

Moderator : Thank you. The next question is from the Ravi Agarwal from Standard Chartered Securities, please go ahead.

Ravi Agarwal : Thanks for taking my question. Just on Biochem, could you just give us some prospective of what the operating margins for that business are?

Pankaj Patel : On Biochem we have told you before, I think in one of the meetings that the deal is overall EPS accretive. We cannot share the operating margins details at this moment, but you can talk to Mr.

Vishal Gor :and he can give you additional information.

Ravi Agarwal : Second question is the adoption of AS 30. This was not very clear to the earlier explanation of how you have treated the ForEx. I believe you mentioned that there is an additional ForEx loss of this number, which is mentioned as a part of your AS 30. So, could you just explain that a little bit more in detail?

Pankaj Patel : I will ask Mr. Nitin Parekh to explain to you.
Nitin Parekh We followed from the current quarter hedge accounting by following accounting standard 30. Based on that we have transferred certain loss on forward contracts and other hedge instruments to hedge reserves. Had we not done that, our loss on account of currency fluctuation charged to P&L account would have been higher by Rs 31 crores, over and above what has already been charged to P&L account of Rs. 34 crores. Both these amounts have been shown in separate notes.

Ravi Agarwal : So the amount of ForEx loss pertaining to interest cost which is shown on the P&L is shown as 318 million?

Pankaj Patel : Yes.

Ravi Agarwal : And the balance of Rs. 24 million is the amount which is presumably a part of your other expenditure?

Pankaj Patel : Yes.

Ravi Agarwal : So question that why is the other expenditure, so a high on a sequential basis, if we remove this number that in the last quarter also, you had some ForEx loss coming into that number if you remove that then these sequentially the number seems to have gone up very sharply?

Pankaj Patel : We have included the numbers of Neshor and Bremer and about 10 days of Biochem which has resulted into sharp increase in the other expenses. Also other expenses include the R&D expenses, which have gone up substantially by more than 100%. So if we exclude these two elements, than the other expenses have almost remained flat.

Ravi Agarwal : How much is the R&D expense for this quarter?

Pankaj Patel : R&D expense for this quarter, including salary component is Rs. 112 crores, which was Rs. 53 crores last year for the corresponding period.

Ravi Agarwal : The final question before I get into queue how much is our total debt as of total as well as the net debt in the company today?

Pankaj Patel : Total debt is about Rs. 2250 crores gross, that is at the gross level and the net debt excluding cash balance is Rs. 1876 crores.

Ravi Agarwal : And this net debt has gone up by approximately around 500 crores in the last quarter?

Pankaj Patel : We will check that I do not have the data with us.

Ravi Agarwal : Sure, thank you very much.

Moderator : Thank you. The next question is from Kartik Mehta from Daiwa Capital Markets, please go ahead.

Kartik Mehta : If you can throw some light on your US business. In terms of the growth that we can see in this quarter and in FY 13 is it fair to take some in the second half of FY 13 that there is some sign of actually resolutions of the US FD issue?

Pankaj Patel : I think we have already given you that this quarter numbers. With respect to the US FDA and the warning letters as I mentioned in the last conference call that we have replied to the warning letter and subsequent clarifications were asked which also have been provided. Based on that FDA has now scheduled an inspection to reconfirm what we have said, and we expect the inspection to happen during this month and we are hopeful of resolving the matter.

Kartik Mehta : Yeah for this quarter, can you share Pankaj Bhai the sales of Neshor that would have been there in this quarter so that organically the existing...

Pankaj Patel : The US business Ex- Neshor sales has grown by 27% for the quarter and including Neshor the growth is about 45%.

Kartik Mehta : Yeah, something on the Hospira JV can you throw some color on our update on actually Taxotere in terms of the competitive scenario in the market? What are you hearing from Hospira if you can just?

Pankaj Patel : I can only say that there is competition from other companies who have launched Taxotere in the US market. So we cannot expect the same kind of number that we had in earlier quarters. Specific details I am unable to provide. We have launched five products in the European Union and three products in US so far and we are planning to launch the remaining products in the next financial year.

Kartik Mehta : Okay, one last question is on the India business in the fourth quarter for the previous year was has a fairly high based if I have to look at FY 12, assuming that we do all most about flat or we have lower sales in Q4 FY 12 for FY 13, including Biochem. What would be your number that would be fair to assume after we have access to all the brands of Biochem on full year basis?

Pankaj Patel : I think we should look for a very good growth I cannot give you specific numbers, but I can give you a range. In the range will be anything between 15 and 19%.

Kartik Mehta : So that it is including one full year of Biochem and it will be for one quarter in this year?

Pankaj Patel : Are you talking about Q4 now?

Kartik Mehta : No, I'm talking about FY 13 over FY12, so you said it will be 15 to 18%, which I presume which would assume one quarter and 10 days sales for actually Biochem in FY 12, is that right?

Pankaj Patel : Yeah, I would say this number is assuming one full year of Cadila and one full year of Biochem sales.

Kartik Mehta : Thank you that answers the question. I will be in the queue. Thanks.

Moderator : Thank you. The next question is from

Monica Joshi : from Avandus Securities, please go ahead.

Monica Joshi : We just missed the number you have taken on ForEx losses and other expenses?

Pankaj Patel : It is about 2.5 crores rupees for the quarter.

Monica Joshi : Just some questions, one is on the Biochem segment, Pankaj Bhai if you could just throw some light on what is the rationale behind acquiring this company which is so focused on anti-infectives when generally everybody wants to increase on the chronic acute area?

Pankaj Patel : See if you look at the market research reports, the overall pharmaceutical market is growing at around 15%. The acute segment also is growing at 13.5 to 14% and it contributes almost 70% of the market. Now historically we have focused more on chronic segment and that is why we have a large presence in the chronic segment. However, the acute segment has also been growing and it is very important for us to really have significant market share in acute segment and also this is one segment where some of the new players have actually benefited from inaction by major players in the market place. So as a strategy we thought was that this will be a vehicle for us to garner significant market share in the anti-infective segment going forward and we see that this acquisition gives us a vehicle where we can do certain things which we would have otherwise not done in Cadila are given that kind of field force activity, sales promotional activities we had. Biochem is going to remain 100% subsidiary of Cadila and we would see clear advantage of growing rapidly into the acute segment as well, which will also give us some synergistic benefit in the non-Metro and tier 2 and Tier 3 and extra urban market going forward. We also will get significant distribution synergy out of this. Overall synergies because of this acquisition is expected to be around Rs. 20 to 25 crores.

Monica Joshi : So if I understand correctly, you are saying that synergies both in operational front and the sales force will help further expand Biochem current operating margins is that right?

Pankaj Patel : Yes.

Monica Joshi : That is helpful. Secondly I just want some clarification on the joint-venture side did you get a component off Bayer joint venture in it also in this?

Pankaj Patel : Yes.

Monica Joshi : Sir, excluding Bayer is there any one of sales that we have seen?

Pankaj Patel : No.

Monica Joshi : Is this a run rate that we can consider going ahead?

Pankaj Patel : I guess so. But it is very difficult to say because the sales activity depends on our partner not us because we are essentially a manufacturing and supply JV, the sales activities are done by the partner. So as far as the projection we will not say much of the one-off except someone off sales happens in the Nycomed JV during the quarter which is to the extent

of about I think Rs. 15 crores or so.

Monica Joshi : Out of 120 crores about 15 crores, is one off is?

Pankaj Patel : Yeah.

Monica Joshi : And you said it is five products in European Union on Hospira and 3 in US, is that right?

Pankaj Patel : Yeah.

Monica Joshi : Sir, just one understanding on how do you your entire business going forward you have had three acquisitions in a very short span of time and how does Cadila as a company brace with integration with financial integration and operational integration from here. Also, do you see any areas where you would want to fill gaps going ahead, anything that could be on your radar?

Pankaj Patel : First of all on the integration front, though we have done three different acquisitions, one is for the Indian market for which we have our own set up, which is geared up to absorb this very easily. The second one is for the US where we also have an enabling US organization which is able to then take care of absorbing that end and the third one is an animal health area where we have a separate company Zydus Animal Health Care Limited it has a separate infrastructure and management to manage that. So from our prospective obviously any acquisition is always challenging in the segment but we do not see any issue because the work gets distributed between the three different things. So we do not see any challenge.

Monica Joshi : Sir, you are saying that the tax level can actually come down from here?

Pankaj Patel : Yeah that is what our goal is and what has to repeat that our policy is that under no circumstances the base equity ratio should exceed 1. And our preferred debt equity ratio is 1.5 with currently it is 0.78 and we would like to bring it down to 0.5 in the course of time.

Monica Joshi : That is very helpful. Thank you and wish you all the best.

Moderator : Thank you. The next question is from Ashish Rathi from Equirus please go ahead.

Ashish Rathi : Good afternoon, thank you for taking my question. Sir. My question first if you could give me the constant currency growth rate for various markets is that is possible?

Pankaj Patel : I would request Vishal to give you.

Ashish Rathi : Sure, no problem. Secondly, on Nesher have you done any new launch in that quarter?

Pankaj Patel : No.

Ashish Rathi : So one product is launched as of now?

Pankaj Patel : Yeah it is only one product which is launched we expect to launch one or two products next year.

Ashish Rathi : And some of these products have actually controlled substance of so how many of the eight are controlled substances?

Pankaj Patel : Out of the eight about six are controlled substances.

Ashish Rathi : And we are seeing 2 to 3 launches in this quarter is that...

Pankaj Patel : No. Next financial year.

Ashish Rathi : Secondly on the growth side in the domestic market. We were pointing issues that our larger brands were not able to grow that well because of it is overall domestic growth was lagging so could you just give us an indication in terms of the big brands like Aten, Deriphyllin and Falcigo what has been the growth for the company?

Pankaj Patel : Well, some of the brands are doing well some of them are not it is a mixed bag that all brands are not growing, but I think overall the growth is now we see clearly a growth pattern coming up and we had some issues and I think we are hoping that we have resolved the issue.

Ashish Rathi : Okay fair enough. That is all. I'll join back the queue.

Moderator : Thank you. The next question is from Dheeresh Pathak from Goldman Sachs Asset Management, please go ahead.

Dheeresh Pathak : Good evening, thanks for taking my question. In the US can you just confirm whether we have not got any ANDA approval post the warning letter that we had in June?

Pankaj Patel : Yes, we have not received ANDA approval post warning letter.

Dheeresh Pathak : For injectable as well as non-injectable right?

Pankaj Patel : Not a single.

Dheeresh Pathak : And in the Hospira JV have we added any new product?

Pankaj Patel : During the quarter. None.

Dheeresh Pathak : Okay can you just give a comment sequentially September quarter- December quarter, how has the Hospira JV done in terms of revenues and profit?

Pankaj Patel : We do not share JV specific information.

Dheeresh Pathak : And on other operating income, can you just give a breakup as to what is included there?

Vishal Gor : The other operating income includes about Rs. 25 million of export incentive, contract manufacturing and processing of Rs. 43 million, royalty of about Rs. 107 million and rest are all miscellaneous items.

Dheeresh Pathak : Okay great, thank you so much.

Moderator : Thank you. The next question is from Ranvir Singh from Sharekhan. Please go ahead.

Ranvir Singh : Thanks for taking my question. My question is related to Indian market. We see this time 15 products have been launched. Last quarter, it was around 20 products. So what we can expect of the run rate for launching these products in domestic market?

Pankaj Patel : Sorry, what did you say? Can you come again?

Ranvir Singh : The number of products launched during this quarter in Indian market, I believe that 15 products have been launched. Last quarter, it was 20 products and I believe that you guided earlier and so that roughly 20 products have been launched on quarterly basis. So this time we see the low number of product launches, it is just a normal process or we see any slowdown?

Pankaj Patel : Don't read much into it. Between 15 and 20, I do not think there is so much of a difference. What is more important is 7 products which we have launched for the first time.

Ranvir Singh : My second question is in order to Nycomed JV, whether we have added any new products?

Pankaj Patel : No, we have not added any new products.

Ranvir Singh : Okay thanks. Thanks for taking my question.

Moderator : Thank you. The next question is from Girish Bakhru from HSBC Securities. Please go ahead.

Girish Bakhru : Hi, just on the US side, as you said the inspection might be due this month post suppose successful inspection, do we expect any ANDAs to get approved?

Pankaj Patel : Yes, we have several ANDAs which have completed the scrutiny and we expect that post successful result, we should see approvals of ANDAs coming up.

Girish Bakhru : Can you throw a number or two like how much traction we can get say in the quarter and going forward?

Pankaj Patel : I cannot say when because that will depend on when US FDA resolve the issue. So once US FDA issues resolved, we expect between 4 to 7 product approvals.

Girish Bakhru : Right and any color on the potassium chloride which is the product from the Zynesher, what would be your market share there?

Pankaj Patel : I do not have the data right now available.

Girish Bakhru : Thanks a lot.

Moderator : Thank you. The next question is from Anand Shah from Dolat Capital. Please go ahead.

Bhavan : This is

Bhavan :, congrats on number sir. Some color on the Abbott deal that we had done, any ramp up that we will see sooner?

Pankaj Patel : On the Abbott deal, we are registering a product and we are going to start commercial activity in next financial year.

Bhavan : So the sales realization will happen only the second half or it will be?

Pankaj Patel : Second half of next financial year.

Bhavan : Second half of next financial year and was the number from Bayer JV meaningful to be added to the JV sales or it is progressing well quarter-on-quarter basis?

Pankaj Patel : It is progressing well quarter-on-quarter.

Bhavan : Great sir and if you could just comment on the field force that you would be having right now, total with Biochem?

Pankaj Patel : I would request Vishal to give you the number.

Bhavan : No problem Pankaj bhai and roadmap towards \$3 billion, some more clarity when would that be shared?

Pankaj Patel : I can briefly tell you something, but at the appropriate moment we would basically may be have a meeting where we can give you more details, but what we have done, we have carried out the detailed exercise basically understanding the market and product metrics across the market. We actually hired some management consultants for us to help us to do this activity and we internally call this new initiative as Beyond the Billion. After detail study, we have decided that we will work up on various products and markets. We have identified 17 markets/countries where we would be present and 13 different therapeutic areas which we will be operating. Among these products and markets, we have also then basically decided several initiatives which needs to be done. These initiatives are already on the implementation path and we are monitoring this implementation and as we did during the healthy billion journey, we had similarly worked out plans. We are very encouraged with the result which we have got out of the exercise and we see that we are going to move towards our target.

Bhavan : That helps a lot sir. So all the 17, you would be present in all that you are looking for the potential acquisition, that is what I am coming from?

Pankaj Patel : We are not looking at any potential acquisition, we are looking at 17 markets and about 13 products on

which we want to focus on.

Bhavan : That should be great sir and the CapEx rollout for next year if you can share?

Pankaj Patel : This is going to be around between Rs. 400 to 500 crores.

Bhavan : 400 to 500 crores, this is the CapEx for next year that you outlined?

Pankaj Patel : Yes, that is the next year CapEx.

Bhavan : Thank you so much Pankajbhai and all the best.

Moderator : Thank you. The next question is from

Sushant Dalmia : from PINC Research. Please go ahead.

Sushant Dalmia : Thanks for taking my question. Sir my question relates to your operating margins. Now this quarter you had the benefit of rupee also to some extent, but still at around 17% excluding the other operating income. So how do you see that shaping up going ahead?

Pankaj Patel : The main reason for the same is lower gross margins. One is there are some businesses which we have acquired where obviously the margin difference would be there and the second main reason is that there are some input price increases which happened like in the Zydus Wellness business. The impact of forex in the cost of goods is about 1%. But going forward we see that we would be able to increase our operating margin.

Sushant Dalmia : Basically in FY13, you are targeting at 20% mark or 19-20% mark?

Pankaj Patel : For sure. Also the other costs like staff costs, R&D costs have significantly gone up in this quarter, but we do not expect that to continue and that is why we see that will be okay.

Sushant Dalmia : Thanks, that is it from my side.

Moderator : Thank you. The next question is from Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta : Thanks for taking my question. Just starting with Zynesher, so there you have just taken over 8 products from the Neshher side or because they were selling about closer to 30 products right earlier?

Pankaj Patel : That was KV Pharmaceuticals Neshher was part of that organization. They put certain products into the basket along with the assets and out of that, we are basically planning to launch only 6 products.

Sonal Gupta : And this would not really because you said 6 are controlled substances, does it include lot of their extended release portfolio that they have?

Pankaj Patel : Yes.

Sonal Gupta : I mean like they had Metoprolol Succinate and all those things?

Pankaj Patel : We do not plan to reintroduce Metoprolol from there.

Sonal Gupta : But in terms of the R&D capability, have you acquired that relating to extended release products etc.?

Pankaj Patel : We already had the capability of developing and launching and extended product in US market in India and as far as their rate is concerned, the products are already approved products. We only have to fulfill certain obligations under the FDA consent decree and then we would be able to bring back those products on the market.

Sonal Gupta : And could you just indicate what portion of your R&D increase is coming from this Neshher acquisition?

Pankaj Patel : Not significant because of Neshher. In fact the major expenditures are coming from India.

Sonal Gupta : And you are still targeting about 20-25 filings a year, is that correct?

Pankaj Patel : Yes.

Sonal Gupta : And just on the Zydus Wellness side, what portion of your sales constituted chemists or pharmacy channel versus other channel?

Pankaj Patel : I am sorry, I do not have the data with me, so I will not be able to give you the exact data.

Sonal Gupta : And just finally, I know this has been clarified off and on, but on the FX side, there is a gain because of the AS-30 option and there is a loss because of your hedging. So net-to-net, there is only a minor loss right?

Vishal Gor : See on account of adoption of AS 30, we have transferred the unrealized forex loss on hedge instruments to hedge reserve account. The impact of that on the P&L is shown as a note to account which was Rs. 31 crores after tax benefit. So had we not followed this hedge accounting practice, our profit would have been lower by about Rs. 31 crores. Another note is for the interest and finance cost, which includes forex loss of Rs. 34 crores which is shown in profit and loss account.

Sonal Gupta : Okay fine, thank you.

Moderator : Thank you. The next question is from Nimesh Mehta from MP Advisors. Please go ahead.

Nimesh Mehta : Thanks for taking my question. Just trying to understand this ForEx part a little bit more, net-to-net because of the INR depreciation including the operational part and bookkeeping part. Have we not benefited because of ForEx depreciation. Have we not been able to book higher sales because of that. What is the net impact of ForEx?

Pankaj Patel : Lot of details Nimesh bhai here, so I would request Vishal and Nitin bhai to talk to you and give you exact details so that you can understand the whole thing.

Nimesh Mehta : Okay fine and one very small question, you mentioned that this quarter includes one week sales of Biochem which is 10 crores, correct?

Pankaj Patel : Yes.

Nimesh Mehta : So I am just annualizing, I do not know I may not be..

Pankaj Patel : In the pharmaceutical industry, lot of sales happened in the last 10 days. Management Last year, sale was 260 crores that we have already told. So why do you annualize that?

Nimesh Mehta : And finally can you share the sales from Bremer, your acquisition Bermer?

Pankaj Patel : Rs. 107 million.

Nimesh Mehta : Okay thank you very much.

Moderator : Thank you. The next question is from Rahul Sharma from Karvy Stock. Please go ahead.

Rahul Sharma : Sir just wanted to know the depreciation has gone up quite a bit Q-on-Q. Is this on account of Biochem predominantly or any other thing is there?

Pankaj Patel : It is because of inclusion of Nesher, Bremer, and Biochem, all.

Rahul Sharma : So should we take this as a good run rate for the next 1 or 2 quarters?

Pankaj Patel : Yes.

Rahul Sharma : And just wanted to know why the growth has been quite lackluster in the Brazilian market?

Pankaj Patel : In Brazil market, we were expecting a product approval during the quarter which actually got delayed and

we got it only in early January and that basically resulted into some downward sales pressure. We see that the product is now on market and we should be okay from next quarter onwards.

Rahul Sharma : And so another thing was you were planning to launch 2-3 products from your basket products which you approved in the US market in the last quarter. Does it hold good yet?

Pankaj Patel : Yes, it holds good.

Rahul Sharma : And you are all planning to launch it in the current quarter?

Pankaj Patel : Already one we have launched and we are going to launch others.

Rahul Sharma : These are very generisized products or?

Pankaj Patel : They are generisized products.

Rahul Sharma : Any take on which products are going to be launched sir?

Pankaj Patel : Sorry, we cannot give you that because of commercial reason.

Rahul Sharma : Sir any take on how much we paid for Biochem?

Pankaj Patel : We have a policy that do not disclose any amount we have paid for it.

Rahul Sharma : Sir on the domestic, your EBITDA margins be in line with the company's EBITDA margins in Biochem or will be substantially higher?

Pankaj Patel : It is lower because it is more in acute segment, but there are some synergies. So ultimately we would be able to bring up the margins to our level.

Rahul Sharma : When it is slightly lower than the company.

Pankaj Patel : Pre-synergy it is lower, but after synergy it is in line with Cadila's numbers.

Rahul Sharma : Okay, but this business, do you expect it to grow in line with the market sir, the Biochem?

Pankaj Patel : Yes, better than the market. We want to grow because we want to get market shares there now.

Rahul Sharma : And any tax guidance for FY13 sir?

Pankaj Patel : Sorry, I would not be able to give you any guidance.

Rahul Sharma : Okay, thank you sir.

Moderator : Thank you. The next question is from Priti Arora from Kotak. Please go ahead.

Priti Arora : This first question is on R&D. I think last couple of quarters, you had guided for around 6%, but year to date we are running much higher. So is this R&D the new run rate or would you expect it to come down to 6% next year?

Pankaj Patel : We would come down to that level. We did number of filings that were in pipeline and basically we had filing into markets like Japan and Mexico where significant investments have been made in terms of biostudies, etc., but going forward once all filing pressures are over, we should be okay.

Priti Arora : And to an earlier question I heard that you are not planning to launch Metoprolol Succinate, is that correct?

Pankaj Patel : We did not say that we are not planning. We said we will not launch from Neshier.

Priti Arora : And any reason why the US sales have been flat sequentially if you can just help us understand because Neshier I think was included for 2 months last quarter and 3 months this quarter. So are we witnessing pressure or are you

hopeful that things will resolve steadily?

Pankaj Patel : Lack of new product would always have some pressure on sales, but sequentially we have grown. So last quarter, our sales was 307 crores and this quarter our sales is 343 crores. So sequentially also, the number is higher. Obviously we did not have as high as we would have expected, but we still see some growth, but once the new product comes in then the growth will be significant.

Priti Arora : Actually I was looking at dollar terms, dollar terms it is flat.

Pankaj Patel : I agree with you dollar terms it is sequentially not growing that much and that basically lack of new products.

Priti Arora : And other companies who are in this warning letter actually said that the time gap between inspection and when they get the formal warning letter, resolution letter can be something which they cannot estimate, etc.

Pankaj Patel : I would also maintain the same because it is very difficult to comment on timelines on somebody else whom I cannot influence.

Priti Arora : But June 2012 for resolution still remains your best guess?

Pankaj Patel : Yes.

Priti Arora : Okay, I am done. Thank you.

Moderator : Thank you. The next question is from Hardik Vora from Dolat Capital. Please go ahead.

Hardik Vora : My first question is on ForEx loan, what component of total loan is dollar denominated?

Pankaj Patel : Vishal, can you take that offline so that we can take up other questions.

Hardik Vora : Just one last clarification on the AS-30 adjustment, I understand that there is a ForEx loss which has been moved to the balance sheet now and not a hold in the P&L this quarter?

Pankaj Patel : Correct.

Hardik Vora : Is the adjustment done for the previous quarter as well corresponding last year?

Pankaj Patel : No, this is implemented in this quarter only.

Hardik Vora : Alright, thank you.

Moderator : Thank you. The next question is from

Katubh Pawaskar : from Sharekhan. Please go ahead.

Katubh Pawaskar : Sir I have few questions on Zydus Wellness. So you mentioned that you have seen de-growth, so can you just quantify what kind of decline you have seen in the revenues for this quarter?

Pankaj Patel : As we are not giving product-wise detail, but I can say that because of two of our EverYuth product range, we had stiff competition, we are seeing some de-growth, but now that we started promotional activity, we clearly see that we should be able to show good growth.

Katubh Pawaskar : But sir was it a substantial de-growth for the quarter or it was just a kind of de-growth which you were not expecting?

Pankaj Patel : The de-growth is already reported, so overall company has de-grown and for other brands have not de-grown. The de-growth has come from this brand.

Katubh Pawaskar : Basically, that answers my next question. I was trying to ask you what was the kind of growth in the

Nutralite for this quarter being a quarter 3 is normally good quarter for you in terms of Nutralite. So you have achieved kind of a single digit growth in Nutralite?

Pankaj Patel : We have achieved growth in both the other brand. They are not in double digits.

Katubh Pawaskar : And sir in ActiLife, how the brand is performing and can you just guide on what kind of contribution?

Pankaj Patel : In ActiLife, we have achieved our numbers which we had projected. Recently you must have noticed that we started our second burst of advertisement. We also obtained good response to the advertisement in the market place. So we see that we are going towards building this brand.

Katubh Pawaskar : So what are your next plans towards this brand, what exactly is that?

Pankaj Patel : We would build this brand now further. It will become our fourth pillar for the organization.

Katubh Pawaskar : And when do you see the brand to contribute substantially to your topline and not in next one or two years, but may be.....

Pankaj Patel : About 3 years' time.

Katubh Pawaskar : Thanks a lot sir.

Moderator : Thank you. The next question is from

Surjit Pal : from Elara Capital. Please go ahead.

Surjit Pal : Thanks for taking my question. Could you please tell me what is the latest details on Nycomed JV in terms of additional products post the acquisition, is it being delayed, then you have planned earlier?

Pankaj Patel : I think this question I do not have answers just now with me. I cannot comment on what is happening at Nycomed.

Surjit Pal : I am not talking about Nycomed, I am talking about your JV in terms of earlier you have planned of around 16-17 products.....

Pankaj Patel : That is on stream and we have started producing the API, we have already supplied 6 products from the site to Nycomed and we are planning to sell more.

Surjit Pal : But have you received approval already from the..?

Pankaj Patel : Yes, we have received approval from European authorities.

Surjit Pal : And about US FDA?

Pankaj Patel : US is still pending.

Surjit Pal : But is it delayed from your planned time period?

Pankaj Patel : No, it is not delayed.

Surjit Pal : So when can we expect the full-fledged revenue to start shipping-in in your numbers?

Pankaj Patel : I think FY13, we should see the numbers coming in.

Surjit Pal : What could be your, this quarter Nycomed sales growth?

Pankaj Patel : I do not have the numbers in front of me. So you can talk to Vishal and he can give you the information.

Surjit Pal : Another clarification I required in the sense that you have shown around 34 crores in your profit and loss

account. Of which, 20 crores you have shown in other expenditure and rest of the 14 crores you have shown in your interest expenditure right?

Pankaj Patel : No, Rs. 2.5 crores that we have shown in expenses and Rs. 32 crores have been shown in interest expenses.

Surjit Pal : What will be the breakup of your branded business in the domestic formulation?

Pankaj Patel : I do not have the data in front of me again, but it is mostly branded.

Surjit Pal : Thank you and all the best.

Moderator : Thank you. The next question is from

Krishna Kiran : from ICICI Direct. Please go ahead.

Krishna Kiran : Thanks for taking my question. I have couple of numbers. I will take it from Vishal. One on broadly on industry perspective. Sir last time in the last call we have said GI and anti-infectives segments are not performing well and how these are performing now and again you have acquired acute therapy which you are expecting to drive the growth. So how it actually working out?

Pankaj Patel : Actually the acute segment overall is growing and last quarter we had some issues with our brand, but this quarter we are seeing that internally they have done well. So overall the company could project a sale of 15% growth on the domestic market excluding Biochem. So going forward, we clearly see that it is an opportunity and we should not miss out any opportunities. It has to be played in certain fashion and with Biochem, we will be able to do that.

Krishna Kiran : And sir like we have done three acquisitions in the recent past and now we are seeing slightly EBTIDA margin pressure in the couple of quarters and when we can see margins to be normalized may be in H2 FY13?

Pankaj Patel : Definitely we will be able to see that. What happened is that we are investing at the same time, topline does not increase then you will see EBITDA margin pressure, but I think it is a time we need to do this because we have \$ 3 billion target in front of us.

Krishna Kiran : Fair enough, thanks a lot.

Moderator : Thank you. The next question is from

Saion Mukherjee : from Nomura. Please go ahead.

Saion Mukherjee : Thanks for taking my question. Sir the Neshier acquisition, potassium chloride, do you think there is scope for sales to grow further here because I think you are doing like 10 million a quarter kind of a run rate?

Pankaj Patel : We do not expect the sales to grow significantly on this quarter alone.

Saion Mukherjee : And you mentioned couple of launches possible going into FY13. Do you have enough visibility of the same and how should we think about Neshier when you actually end up launching the 6 products that you talked about. So what is the timeline and what is the scale that you are seeing Neshier could get to?

Pankaj Patel : Next year, we expect that one or two products can be launched. It will not be for the full year, but for half of the year or so and we expect both these products to also contribute good sales numbers.

Saion Mukherjee : And can you throw like the 6 products, all the 6 products by what timeframe you think they will be in the market?

Pankaj Patel : In next 2.5 to 3 years we should have all the products in the market.

Saion Mukherjee : And can you just also give us an indication as to what kind of revenue potential do you see from these products?

Pankaj Patel : That is a tough question. Let me collect some data and then just give you the numbers.

Saion Mukherjee : And just on Biochem, you shared the revenue number for the last year, 260 odd crores, but what has been the growth rate. What is the kind of growth rate that you are seeing in the last quarter or since you have acquired, what is the kind of growth rate you are seeing there?

Pankaj Patel : Biochem has been growing better than the market. So we hope that we will be able to continue that growth.

Saion Mukherjee : So in this year you are like growing at what 15-16% because assuming market is at 15%?

Pankaj Patel : Yes.

Saion Mukherjee : And the margin synergy that you talked about, what is the timeframe for realizing that synergy?

Pankaj Patel : I think 6 months is max.

Saion Mukherjee : That is fast. Thanks and all the best sir.

Moderator : Thank you. The next question is from

Jiten Doshi : from Enam Asset management Company. Please go ahead.

Jiten Doshi : Pankaj bhai, this question is for you. You had mentioned that you had the vision of \$3 billion rightly holding it. I think 2011 has been a year of aberration where we are seeing very muted growth. Otherwise last 4-5 years, you had extremely good topline growth and bottom line growth has been better. When do you think the worst of your quarters will be behind you?

Pankaj Patel : I think we are getting through the worst part of it. I have to understand the issue that after achieving a billion, everybody has really worked very hard. I think we need to give time to our team to also really come up again and start delivering higher number. I clearly see a new energy when we launched our Beyond the Billion program recently that new energy in the organization and I am clearly seeing that the worst is over and we are moving ahead.

Jiten Doshi : Do you believe that in 2012-13, once again you will be on growth track like the past few years?

Pankaj Patel : Yes.

Jiten Doshi : We can expect you to overall see a 25-30% kind of a topline?

Pankaj Patel : We will have to do this kind of numbers. If we do not do it, we will have problems going forward. I cannot give you specific numbers, but we will have to do this kind of growth, otherwise how do we achieve 3 billion. I cannot give you a specific guidance, but I can definitely tell you that is what our goal is.

Jiten Doshi : Obviously. So 25-30% if you do not do, you will not reach where you want to?

Pankaj Patel : It cannot become every year like that, some years are going to be more because there are some specific products are being launched in those years which can give a significant revenue outside.

Jiten Doshi : And sir where do you see the margins from 2013 onwards. Where could they go in the next 2-3 years?

Pankaj Patel : Margin, our internal goal is always that we want to improve our margin by about 100 basis points every year and that is the goal. Unfortunately, this year, our margins have not improved, but actually had declined, but we clearly see that we have to regain to our original margin and then again get back to this 100 basis point improvement in the margin by about a year. Anything which is like margin was around 25-26 is what we should be our goal to achieve ultimately.

Jiten Doshi : Since you have come down dramatically in 2012, you will make up for 2012 within '13 and also take the 100 basis points higher than the..

Pankaj Patel : I cannot give you specific numbers. I can say we will bounce back soon and our goal is to really improve

our net margin. That is our internal goal, but I cannot give you specific guidance because we do not give guidance.

Jiten Doshi : Sure and do you think the worst is behind your December quarter or you think you can start getting better.....

Pankaj Patel : Worst is behind us.

Jiten Doshi : The March will be surely better, is it

Pankaj Patel : March will be a tough quarter for us because last year we had a significant revenue from Hospira because of exclusive launch of Docetaxel which is not going to be in this quarter. So there is going to be some challenge, but excluding that one-off, we should be okay.

Jiten Doshi : Another question is that are you looking at more JVs like Hospira coming in 2012-13?

Pankaj Patel : Not in particular year I can say, but we are definitely looking for more JVs.

Jiten Doshi : And can you fill us a little bit on the Abbott, I missed that out. What is happening on that?

Pankaj Patel : Abbott, we initially licensed some dossiers and we have done the dossiers. They have now filed and they are getting product approvals. Once the product approval is clear, we will start commercial supply from India.

Jiten Doshi : And last question is based on your consumer business. Basically we are seeing two or three products which are doing very well. How would you now really go about getting many more blockbuster products for the company? Would you be looking at acquisition strategy in that business also?

Pankaj Patel : As a company, we are not shy of acquiring anything. We are always open to acquire if it is making strategic sense to us or it can become kind of a path breaking thing, but this company is small in size at this moment and we will be happy to consider that at appropriate time. So I do not think it is an appropriate time for us to acquire. First we have to put our current business in order and then we can acquire and go ahead.

Jiten Doshi : So what do you think is the sustainable growth rate for this business over the year?

Pankaj Patel : By 2013, we have to achieve Rs. 500 crores sales.

Jiten Doshi : 500 crores sales by March '13?

Pankaj Patel : Dec '13 or March '14.

Jiten Doshi : Thank you very much. I wish you all the best.

Moderator : Thank you. The next question is from

Nimesh Desai : from Motilal Oswal. Please go ahead.

Nimesh Desai : Just couple of questions. Sir one was on this \$3 billion target that we have. Now that we have acquired three companies in the past few quarters. Can you just very briefly tell us whether this 3 billion is contingent on some big acquisitions or this is all organic the target?

Pankaj Patel : 3 billion is an organic number. So it is not contingent on acquisition.

Nimesh Desai : Okay fine, that helps. Secondly Vishal if you can just give us the quantum of ForEx hedges that you have currently?

Vishal Gor : It is about \$177 million.

Nimesh Desai : And this ForEx loss that has been transferred to the balance sheet under AS-30 that pertains to only the December quarter or it pertains to the 9-month period?

Vishal Gor : It pertains to December quarter. We started this standard from October onwards.

Nimesh Desai : I am done with my question. Thank you.

Moderator : Thank you. The last question is from Karthik Mehta from Daiwa Capital Markets. Please go ahead.
Karthik Mehta In terms of R&D spend, can you help us if the number is high on account of any larger than expected spend on the NCE or anything to do with the US FDA?

Pankaj Patel : Mostly because we started filing in Japan and Mexico and for both this market, we have to do the biostudies in Japan and Mexico. That is why you see a number which is higher.

Karthik Mehta : And anything that you would have spent in the last 2-3 quarters exceptionally to increase the effort to resolve the US FDA issue or actually would that be normal?

Pankaj Patel : Nothing specific. Our issues were much more process oriented and not really quality related.
Karthik Mehta Thank you for answering my question. Thanks.

Moderator : Thank you. Ladies and gentlemen that was the last question. I would now like to hand over the floor to Mr. Ganesh Nayak for closing comments.

Ganesh Nayak : Thank you very much and we look forward to again talking to you in the month of April to close up the year with the results of the last quarter. Thank you.

Moderator : Thank you. On behalf of Zydus Capital that concludes this conference. Thank you for joining us and you may now disconnect your lines.