

**“Cadila Healthcare Limited
Q2 11-12 Earnings Conference call”
(November 10, 2011)**

MODERATORS:

MR. PANKAJ PATEL – CHAIRMAN & MANAGING DIRECTOR – CADILA HEALTHCARE LIMITED

MR. GANESH NAYAK – EXECUTIVE DIRECTOR – CADILA HEALTHCARE LIMITED

MR. VISHAL GOR – GENERAL MANAGER, INVESTOR RELATIONS. -- CADILA HEALTHCARE LIMITED

Moderator Ladies and gentlemen, good afternoon and welcome to the Q2 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. If you should need assistance during the conference call, please signal the operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Dr. Ganesh Nayak, COO & Executive Director of Zydus Group. Thank you. And over to you, sir.

Ganesh Nayak Hi, good evening and welcome to our Post Results Teleconference for the Second Quarter of the year 2011-12. We have with us Mr. Pankaj Patel – our Chairman and Managing Director, Mr. Nitin Parekh – our 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, our US business posted sales of Rs. 3070 million, up by 36% backed by growth in the existing products as well as the addition of Zyneshier. The formulations manufacturing plant at Baddi, Himachal Pradesh has been approved by the US FDA. This enables us to open up an additional resource to cater to the growing needs of our US business. We filed 5 ANDAs for the US market taking our cumulative filings to 136 ANDAs. Our formulations business in Brazil was up by 12%. We launched 2 new products in Brazil during the quarter. We filed 4 new product dossiers for Brazil taking our cumulative filings to 68. During the quarter, Z AHL acquired 100% stake in Bremer Pharma, Germany, a global animal healthcare company. This will help Z AHL expand its animal health business and gain strategic access to the key markets across Europe, South America, Asia and Africa. On a consolidated basis, Z AHL posted a growth of 33% in sales during the quarter. Excluding the Bremer business Z AHL posted a sales growth of 13%. Zydus Wellness Limited posted a growth of 10% in sales for the quarter. Our business in Japan grew by 22%. We filed 4 product dossiers for the Japanese market during the quarter. Our India formulations business grew by 7%. We launched over 20 new products, including line extensions, in the Indian formulations market, of which 7 were first in India.

Our Formulations business in Europe grew by 5%. The growth has been muted because the growth in the overall market has slowed down. We filed 3 dossiers for new products for the European market, taking our cumulative filings to 120 and we received 5 dossier approvals taking our cumulative approvals to 72.

Our JV businesses reported a marginal growth of 2%. The quarter gone by has been a challenging one for exports in other emerging markets and exports of APIs have posted a negative growth mainly on account of price erosion and lower inventory off take and destocking by some of our key customers. In some of the key markets, supplies were restrained intentionally by us to mitigate the risks likely to arise due to the ongoing political crisis. We believe that it is only a temporary phase and would be resolved in the times to come.

Now, let us go through the broad financial highlights. During the quarter, on a consolidated basis, our total income from operations grew by 11% Year-on-Year to Rs. 12,364 million from Rs. 11,167 million last year. EBIDT excluding net exchange rate fluctuation loss on forward contracts and trading transactions was up by 9% Year-on-Year to Rs. 2757 million from Rs. 2529 million last year. EBIDT margin was at 22.3%, marginally down from 22.6% last year. This was achieved in spite of 23% growth in R&D costs and 30% growth in staff costs. Profit before tax excluding net exchange rate fluctuation loss on forward contracts, trading transactions and Forex loans was up by 7% Year-on-Year to Rs. 2,237 million from Rs. 2,083 million last year. While we have maintained our operating margins through stringent controls over operating costs, sharp depreciation of the Indian rupee vis-à-vis global currency has resulted into a loss of Rs. 900 million on foreign currency forward contracts and borrowings, of which Rs. 832 million was unrealized. This includes a net loss of Rs. 386 million on forward contracts and trading transactions and a loss of Rs. 514 million on long-term foreign currency

borrowings. Our net profit after tax was lower at Rs. 1027 million, mainly on account of foreign exchange fluctuation loss and increase tax rate. Thank you. And we shall now start the Q&A session. Over to the coordinator for the Q & A session.

Moderator Thank you Dr. Nayak. We will now begin with the Q & A session. We have the first question from the line of Anirudha Joshi from Anand Rathi. Please go ahead.

Anirudha Joshi I have just a couple of questions on the subsidiary company, Zydus Wellness. We have seen a revenue growth of just 5%. So just wanted to know what has resulted in slightly lower growth? Because I guess last quarter we had some issues in distributor margins. So has they all solved or has the revenue growth been lower on any other account? And also want to know the reason for the 130 bps decline in the EBITDA margin?

Ganesh Nayak As far as the growth is concerned, it is actually 10% but because of this excise element the net sales growth is 5%.

Pankaj Patel The reason is that previously we were selling the products which were purchased and now we are manufacturing ourselves, so previously there was a gross sourcing and excise duty reduction was not happening, now the excise duties reduction by allowing that and that is why you see a difference of 5 and 10% what we are explaining. Apart from that, Dr. Nayak...

Ganesh Nayak In terms of the lower growth, one of the factors has been that there is a reduction in the category growth of Sugar Free and we are having almost 90% market share and the market is driven by our growth. And against 18-20% growth in the last few quarters, this year the growth of the Sugar Free category has come down to 6-7% and Sugar Free being a major component of our sales this has led to a lower overall growth. Also, for EverYuth, there has been a stiff competition from the multinationals especially in the Face Wash as well as the Scrub category and we are trying to get our act together to encounter this in the coming quarters, but in this quarter we definitely faced some resistance on these two products. And of course, on the Nutrilite we had to increase our price which has resulted in lower volumes of sales.

Anirudha Joshi Okay. Then Nutrilite volumes are down on a YoY basis?

Pankaj Patel The volumes are not down but the growth has been low.

Anirudha Joshi Okay. But on the Sugar Free category, pretty small category, so why the growth rates have come off sharply? It is a pretty much underpenetrated category. Do you see that as a structural reduction in the market growth itself or just one-two quarter thing?

Nitin Parekh I think it is a quarterly market growth issue, so we do not think that this is going to remain like that but during this quarter, we saw even the overall market has not grown. We have actually gained market share during the quarter so clearly indicating that we are doing better but the point is overall market has not grown and we are doing some actions to address them.

Anirudha Joshi And on the EBITDA margin --?

Nitin Parekh On the EBITDA margin, because previously we were not manufacturing, we were getting the products contract manufactured, now we are manufacturing ourselves, Initially, we are seeing the capacity run also being lower, because the capacity is set up for 10-years perspective, so as a result you will see some higher cost of manufacturing and that would see a marginal reduction in the margins, but going forward, this will of course get even out because of the tax benefit which we get because now we are manufacturing ourselves so it is balancing out with the cost.

Anirudha Joshi Okay. The effective tax rate is down to almost 10%. So would you like to give any guidance for FY12 or '13 on the tax rate?

Nitin Parekh We expect the tax to remain on similar lines.

Anirudha Joshi Around 10% for '12 and '13?

Pankaj Patel It will be below MAT for sure.

Moderator Thank you. The next question is from the line of Krishna Kiran from ICICI Direct. Please go ahead.

Krishna Kiran Just first to clarify Forex loss of 38.6 crores which we had on forward contract where it is accounted? Above EBITDA level?

Ganesh Nayak Yes.

Krishna Kiran And 51 was interest component, right?

Ganesh Nayak Yes.

Krishna Kiran And secondly, employee cost, we have seen a sharp jump QoQ and YoY. We have added any field force?

Pankaj Patel No, we have not added field force significantly, but because we did an acquisition of Neshier in USA and also we started a new facility in Sikkim for wellness so all these and plus Bremer in Germany, all those manpower cost has included into this and that is why you see a jump in manpower cost.

Krishna Kiran Okay. Next regarding debt that we have seen an increase, at the same time cash also we have, so what would be the net debt levels we will be comfortable with at the end of the year?

Ganesh Nayak net debt-equity ratio is 0.56:1 and we have overall guideline of 0.5:1 so we are in a comfortable position.

Krishna Kiran Okay. And lastly, just to understand your view on industry perspective. Slowdown in the industry and the domestic formulation industry has started with antibiotics than GI, what is your view on this, is it going to move across acute or we can see rebound in this industry?

Pankaj Patel Actually, if you see the different reports which are published by both AWACS and IMS they continue to show Indian pharmaceutical market growing at around 13% which was previously being shown as growing between 17-18% something like that. So I see there is a kind of a slow down of about 5-7% in the Indian market overall. Now, the point is whether it is because of destocking or whether it is because of the overall demand coming down, looks like that there is some correction happening in terms of maybe at the stockiest's level. So I see clearly that this is a kind of a blip we are seeing in and this has happened a number of times, I cannot specifically give an answer why it happens, but I see that for this year we are seeing the growth to be around 13% for the industry and maybe next year we would see again jump.

Krishna Kiran Sir, lastly, what would be impact of new pricing policy on our company?

Pankaj Patel It is very early to comment on the impact of the policy because I think it is still a draft policy, there is going to be representations being made against this policy and once the final policy will be out only then we can talk about impact. Overall, we cannot comment before the policy is finalized, that is the way I would put it now.

Moderator Thank you. The next question is from the line of Manoj Garg from Edelweiss. Please go ahead.

Manoj Garg Good evening to all and thanks for taking my question. This is regarding like you have indicated in your opening comments that Baddi facility has now been approved by US FDA. So just want to understand that how many ANDAs we have filed out of that facility? And when do we see the first ANDA approval coming out of that?

Ganesh Nayak From Baddi facility we have filed 4 ANDAs as of now and we are also transferring some work load from our existing facility to Baddi facility. We expect the approval to happen in first quarter next year that is January to March calendar year.

Manoj Garg Okay. And any update on our injectable facility where we had import alert like how do you see the progress and any timeline--?

Pankaj Patel I think we are progressing well with that. I cannot give you more color on that but I think it is moving as per our expectation.

Manoj Garg Have we submitted our response and invited FDA for the re-inspection or we are still waiting?

Pankaj Patel We have submitted our response long back and we also have been in touch with FDA for next inspection. Currently, we do not have further update on that.

Manoj Garg Third is like if we exclude the Neshier revenue which we have booked during the quarter. What could be the organic growth from the US market?

Ganesh Nayak 26% is organic growth in US market plus additional growth comes from Neshier.

Manoj Garg And is this organic growth also have component of price increase, as we have seen there are supply issue by the other manufacturers out there?

Ganesh Nayak Not much price increase I would say.

Manoj Garg It is all volume growth?

Ganesh Nayak Yes.

Manoj Garg And how many products we have introduced in the US market in last six months?

Ganesh Nayak Three products.

Manoj Garg And what could be the guideline for the next six months?

Pankaj Patel We expect maybe two products to be launched in next six months.

Manoj Garg And last question before I get into the queue. Last time, we indicated about our domestic growth and maybe there was a little overstocking because of last year Q4 to attain \$1 billion revenue kind of a target. However, the growth in this quarter is also subdued. Though you have explained some of the reasons because of overall slowdown, maybe, in the growth pattern in the industry what is your take and how do you see the growth for the year as a whole from the domestic side?

Ganesh Nayak There are three; one is I mean the point which Pankaj bhai made a few minutes ago about the overall growth coming down by about 4 or 5%, the second is in some of our specialty segments where we are present, where we have big molecules, we find that the growth in those molecules is lower than even 13% that the industry is doing. And finally, we did say that there was some push given in the last quarter of the last year. In this quarter there were some two or three products in our mass division where we had to do some inventory correction to ensure that our receivables were in order. So broadly speaking these are three items which are responsible for this low growth for the quarter gone by on the domestic front. Coming to the last part of your question what do we expect in the coming quarter or coming quarters, one is in the last quarter we had launched 23 products, of which 7 were for the first time in India, in this quarter, which is October-November-December, we will be launching more than 40 products, of which about 9 will be for the first time in India, that is one. The second is we have undertaken an exercise for sales force effectiveness in one of our large mass division and also in one of our specialty divisions. And of course, there has been an increased competitive activity which we are geared up to face. So in this quarter as well as in the coming quarters, we hope to have some positive response to the actions that we have initiated.

Manoj Garg So do we expect a double-digit kind of a growth for a year as a whole in this year or maybe remain in a high single-digit?

Ganesh Nayak Yes, it will definitely be in the double-digit but not on the higher end of the double-digit.

Moderator Thank you. The next question is from the line of Ravi Agarwal from Standard Chartered. Please go ahead.

Ravi Agarwal The first thing I just wanted to understand you mentioned you launched two more products in the US market. The last interaction we had I think in US alluding to the fact that you may not get any more approvals during the remaining three quarters of the year. So has something changed from --?

Pankaj Patel Baddi facility got approval so some of these products can get launched plus we have previously approved product which we had not launched which we are considering to launch.

Ravi Agarwal But the block on product approvals because of the injectables from that facility would still continue, is that correct?

Pankaj Patel Yes.

Ravi Agarwal So are we still maintaining our 20% kind of organic growth number for the US business for this year?

Pankaj Patel Yes.

Ravi Agarwal Second question I just had was on the overall debt, the total debt on books and I see that it has gone up very sharply from March till September. It is almost doubled now. I was just wondering what the reason for the sharp increase in debt is.

Pankaj Patel The increase in debt is more for Capex, working capital and general corporate purposes It also includes debt for our acquisition of Neshor Pharma in USA.

Ravi Agarwal So for the full year do we see these debts come down on a gross level or would it remain at these kind of levels?

Pankaj Patel Debt on a gross level does not come down. But net debt-equity ratio as of now is 0.56:1 and that is quite comfortable level.

Ravi Agarwal And one final question, can I have the R&D number for the quarter please? What we have taken to the P&L?

Ganesh Nayak The R&D number for the quarter was Rs. 847 million.

Moderator Thank you. The next question is from the line of Monica Joshi from Avendus Securities. Please go ahead.

Monica Joshi Just wanted some clarification; one is on the interest expenses. In first quarter was there any Forex gain that was adjusted against the interest cost?

Pankaj Patel Yes.

Monica Joshi Okay. And can you quantify please?

Pankaj Patel It was Rs. 77 million.

Monica Joshi Just your thoughts on Neshor and the integration how it is progressing. More specifically on what would be the path ahead for the consent decree and when do you see some key early launches to happen from this acquisition including Metoprolol? And if you could just give guidance on the tax rate for the consolidated entity that would be great.

Pankaj Patel So I think first let me address the Neshor thing and Nitin can talk about tax rate. So on Neshor we have already one product on the market which is doing well. We expect a couple of more products to be on market in the next financial year. After taking over we have had few meetings with FDA and we believe that FDA has been supportive of

efforts being put by Zydus and Neshor organization. As a result, we expect the things are moving properly. Our consultants at Neshor also have indicated that the activity which is done by Zydus team and Neshor is in the right direction and we are on path as of now with respect to the commitment which has been made on consent decree which was signed by them so we would get product approval because the consent decree usually is 5 years and they have completed 1.5 year and another 3.5 years different milestones have to be achieved and we are on target as far as those milestone is concerned. Two products are currently being planned for launch in next year and another three products in the next year thereafter.

Nitin Parekh And tax rate would be less than MAT rate.

Monica Joshi So this would be around what 15-16% can we assume?

Nitin Parekh You can say, yeah, between 15-20%.

Moderator Thank you. The next question is from the line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil Sir, could you please repeat the split of the Forex that has been included in the interest ...?

Vishal Gor The ForEx loss which has been included in the interest amount is Rs. 51 crores and 39 crores has been included before EBITDA, out of which 9 crores has been reduced from other income and Rs. 30 crores has been included in the general expenses.

Bino Pathiparampil Can we have the same for 1Q as well?

Vishal Gor I can give you the H1 numbers. For the H1, exchange rate fluctuation on the trade side was Rs. 29 crores

Bino Pathiparampil Which is included where?

Vishal Gor Which is included in the general expenses.

Bino Pathiparampil Was that gain or loss?

Vishal Gor Loss. And exchange rate fluctuation on loans side was Rs. 45 crores.

Bino Pathiparampil Again loss?

Pankaj Patel These were H1 numbers, for the first half.

Bino Pathiparampil And in other income?

Pankaj Patel In Q1 we got Rs. 9 crores as other income. So we first had to nullify that and then book the remaining amount in the general expenses. So in first half entire amount was booked in general expenses but the resultant impact has come in Q2 as reduction of 9 crores from other income and Rs. 29 crores in the general expenses.

Bino Pathiparampil Second, what is the top-line impact of acquisition of Bremer Pharma and when will it start, has it already started?

Pankaj Patel Animal Health business has grown in India by 13% and if we include the Bremer then the business has grown by 33%. Bremer Pharma has recorded a sale of Rs. 84 million during the quarter.

Bino Pathiparampil And what is the strategy behind that acquisition, is there any kind of --?

Pankaj Patel Our Animal Healthcare business has a strong push in India but we have zero exports outside India and this is basically the vehicle to start exporting across the world. This company already is exporting to something like 30 countries and they have registration and distribution network. So the strategic equation is basically done because we get readymade distribution structure and we can register our product and start selling outside of India, so this can become a growth engine for our Animal Healthcare business going forward.

Bino Pathiparampil And finally, so what is the kind of growth rate you are looking for the domestic formulations business?

Vishal Gor I think we told sometime back to somebody's question that we expect our growth to be double-digit for the year.

Moderator Thank you. The next question is from the line of Kartik Mehta from Daiwa. Please go ahead.

Kartik Mehta On the US government asking the FDA to free up approvals which were there in the injectable space on account of the shortages. We read some article there and your partner Hospira also has some issues in its manufacturing unit for the injectable and co-related to this also for one of your competitors out now, so you and SUN enjoy an advantage, can you throw some color on the fact that how does the Hospira JV and your injectable part of the business look here on the back of the fact that you have an injectable plant which has to be approved after the US FDA issue is resolved? Thanks.

Pankaj Patel I think first is Hospira business is going on smoothly. We have been seeing increasing volumes. As far as our injectable business of Zydus is concerned, we have yet not got any product in the US market and it was pre-approval inspection for which we received a letter. As I told you last time and again sometime back is that we are progressing well on that. I cannot give you a timeline for that because it is all up to FDA.

Kartik Mehta Yeah and if you could also throw some light on for one of the products which you launch with Hospira, one of the competitors now actually out of the market and you obviously had actually both the things there and how does that impact your H2 sales because I know in the past you have told us that there is no immediate impact seeing on change in competitive scenario for any of the products that you sell through Hospira but what we see in the market is that you and your partner have extremely higher share and if there is one competitor who actually goes out do you expect or can you share if there is any indication that --?

Pankaj Patel Currently, we have no indication that the demand was significantly high and it would be very early for me to really comment on that. Though our volumes are increasing, there is not a significant increase,

Kartik Mehta Okay. And just one last thing there is can you give some outlook, you would have any number of products, two or three more products which you would have actually launched through the JV after the ones that you have now in the next year or two years or so?

Pankaj Patel I think you can depend on Hospira's guidance as we have been advised by Hospira not to give any guidance to market because marketing and sales is their function in this JV.

Kartik Mehta And in the domestic market any update on your JV with Bayer?

Pankaj Patel The JV has started operations on 1st of May and it has been progressing well; they are showing a consistent sales growth and doing well and we plan to launch several products in this JV to continue growing.

Kartik Mehta And have we added any field force after we entered into the JV and what could be the field force as on date of this result that we have?

Pankaj Patel The JV had a business plan accordingly the field force has been added. And today, we have about 500 reps in the JV.

Kartik Mehta And sir for total for the entire company how much would be the total MRs?

Pankaj Patel Total number of field force of our company will be about 4,500.

Moderator Thank you. The next question is from the line of Priti Arora from Kotak. Please go ahead.

Priti Arora Can I have the guidance for R&D as a percentage of sales what do you expect to do for the year?

Pankaj Patel Our guidance is 5-6% for the whole year.

Priti Arora Okay. And ForEx 90 crores minus the 83 crores unrealised. So what is the balance on account exactly?

Ganesh Nayak There is a realized loss because of repayment of certain loans and retirement of PCFC.

Priti Arora Okay. The next question is on your JV sales. They obviously have come down very sharply quarter-on-quarter and the trend we are seeing in your results is somehow not consistent with the commentary we read from Hospira which has clearly indicated that they maintain market share. So any light you can shed on that or is this inventory corrections we are seeing because it is clearly not consistent with what they are saying.

Pankaj Patel I think we are talking about the overall JV sales and Hospira sales are up but we see a lower sales in Nycomed JV and as a result we are seeing these overall numbers being stagnant.

Priti Arora Okay. So are you saying the Hospira JV sales are up sequentially?

Pankaj Patel Sequentially, they are not up but YoY basis they are up.

Priti Arora And lastly on Europe in the earlier call you had indicated that Europe will not see very high growth but mid double-digit should be possible, but considering the new reality and the 5% growth and your exposure to Spain and France would you now think that 5% is the realistic number or double-digits?

Pankaj Patel We still believe the double-digit growth is doable in Europe and we would be able to achieve that number at the end of the year.

Priti Arora And any update on the Nycomed JV, when do you start seeing product flows through that?

Pankaj Patel We expect next quarter the product flow will start going to joint venture partner

Moderator Thank you. The next question is from the line of Hitesh Mahida from PUG Securities. Please go ahead.

Hitesh Mahida First question, what is this Zest Aviation Pvt. Ltd. wherein we have invested around 20 crores during the quarter?

Pankaj Patel We invested only 2 crores, not 20 crores first of all. And it is a vehicle in which we have invested 2 crores, we will use for our transportation requirement.

Hitesh Mahida And secondly, on the Hospira JV, currently it is for six cancer products. So since Hospira is going through slightly bad time do you expect more outsourcing from the partner?

Pankaj Patel We are discussing currently, it is not yet finalized, so I cannot give you some specific news but we are hoping to do so.

Moderator Thank you. The next question is from the line of Arvind Bothra from Bank of America. Please go ahead.

Arvind Bothra I might be beating around the bush but could you give us the ForEx impact of previous quarter, 2Q FY11?

Pankaj Patel ForEx impact was Rs. 62 million.

Arvind Bothra It was a gain?

Ganesh Nayak No, it was loss. Loss on trading side was Rs. 81 million and there was a gain of Rs. 19 million on loan part.

Arvind Bothra And all the loan part is there in interest and trading part is in other expenses, right?

Ganesh Nayak Yes.

Arvind Bothra And second question on your CapEx guidance, could you just give us your CapEx guidance and where you would be spending the chunk of it?

Pankaj Patel Our CapEx guidance remains at about Rs. 500 crores plus. Our major investments are happening into biologicals and vaccine area plus additional API and formulation manufacturing facility, and also the acquisition of Neshor

Pharmaceuticals.

Moderator Thank you. The next question is from the line of Aditya Khemka from Nomura. Please go ahead.

Aditya Khemka Just a couple for you; regarding the Hospira JV we understand that there has been a sequential drop in sales given the numbers. So how do you see this is evolving going forward, do you see the number which is currently there as appropriate run rate to take or should we expect more erosion on this front and what is the competitive scenario here like?

Pankaj Patel We do not expect the number to go down, maybe they might be better than what is there in this quarter.

Aditya Khemka And what has been the competitive scenario around Taxotere?

Pankaj Patel I think you should go by the Hospira guidance.

Aditya Khemka Another question on the Bremer acquisition, could you please disclose again the price at which you bought Bremer Pharmaceuticals?

Pankaj Patel As a policy, we do not disclose the acquisition price, but it is a very small amount.

Aditya Khemka And in terms of Neshor acquisition, what has been the EBITDA from Neshor this time, the EBITDA contribution?

Pankaj Patel We do not give a specific number for each of these businesses.

Aditya Khemka Was it a loss or a gain?

Pankaj Patel It is not a loss making unit.

Aditya Khemka Okay. And you said that your current field force in India is about 4500-odd people. I am assuming this is excluding the 500 reps in the JV, is that correct?

Pankaj Patel Yes.

Aditya Khemka And any guidance as to how many of people are you looking to add to ramp up your --?

Pankaj Patel We are not planning to add people.

Moderator Thank you. The next question is from the line of Krishna Prasad from JM Financial. Please go ahead.

Jesal Hi, this is Jesal Just a couple of questions from my side; one is for your API business it has declined quite a bit this quarter on YoY and you mentioned there were two-three reasons for this. But how much of this would you attribute to price erosion and what is the outlook on this business going forward?

Pankaj Patel We have one of the products, Clopidogrel for which we had specific advantage and we saw some price erosion on that product and also the volume contraction in European market and that is the main reason for decline in API sales. Going forward, price erosion is permanent, you know that, that is not going to change, so I think it will remain similar going forward also.

Jesal Right, no new product coming in replacing the loss?

Pankaj Patel No new product is coming in to replace that.

Jesal And just on that, in terms of new product introduction, I am a bit puzzled as I have seen in the past as well that we have been increasing so many products in India and yet we find that our growth rates turn out to be little less than the market growth. So can you help us understand as to what is happening to the new products, we are not able to capture market share or these products turn out to be very small in nature?

Pankaj Patel We have some very well established old brands and we do not see a good growth in that, so most of the products are showing a low single-digit growth which are established brands and their volumes is so large, so overall when you see the number we do not see a growth number high. Also the new products could be brand extensions where the potential could be lower.

Jesal And on the Wellness part also you had launched some new products, how are they doing?

Pankaj Patel The product we launched, one new product that is Actilife is meeting our expectations.

Jesal And lastly on the R&D activities, can you just give us a quick update on what is happening in terms of biologics, vaccines and MCE development?

Pankaj Patel Our biologics we are now filing applications in the emerging market for six of the products for which we have approval in India and we are also launching those products into Indian market. In fact some of them have been already launched. We have another six biological products which are in advanced stage of either preclinical studies or clinical studies and we expect them to get approval over the next 12-18 months' time in India. Subsequently, we have selected two products for filing into EU and we are working on it. The third point we are doing is as far as looking for activity for a partner for US and other markets and we are in discussions with several companies to move forward on that front. On the vaccine front, we have several vaccines which are now entering the clinical phase and they would be under clinical trial, we are on track as of today to launch all these vaccines around 2013.

Jesal On the NCE front, any update?

Pankaj Patel On NCE front, we continue our work on a couple of molecules on which we are under preclinical studies. We expect to file two more INDs during this year. One of our programs is moving into Phase II which is in the anti-diabetic area and we expect that as we have the proof-of-concept data available, we would be looking actively for partner for some of our programmes to move forward and take it to the global level.

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

Rahul Sharma Just wanted to know the 84 million sales of Bremer, does it represent a full quarter of revenues or is it only part of the revenues has been --?

Pankaj Patel Part of the quarter.

Rahul Sharma Okay. So what would be the revenue you are looking at for the current year and for next year for Bremer?

Pankaj Patel We can share that information later on I do not have available with me now.

Moderator Thank you. The next question is from the line of Anup Dalal from BNP Paribas. Please go ahead.

Anup Dalal Sir you mentioned in your speech that emerging markets sales decline because of price erosion and destocking. So which are these markets that are behaving in this manner?

Pankaj Patel I think we see a couple of issues; we had some good sales in Sudan and Algeria; both the markets are facing currently challenge on political- and regulatory front, so as a result, looking at the risk involved, we have stopped our supply there and that has impacted on the overall growth numbers.

Anup Dalal I believe this would continue for sometime?

Pankaj Patel Yes.

Anup Dalal Your US growth, will there be an impact on your FY13 US growth excluding Neshar if the sterile facility warning letter remains unresolved?

Pankaj Patel Yeah, if it remains unresolved for the next year we would have some issues. Though we would be able to grow a little bit, we cannot have higher growth if we do not have new products approval next year also.

Anup Dalal Okay. And last question, Neshar has contributed for how many days during the quarter?

Pankaj Patel Two months.

Anup Dalal And just to clarify, for Hospira, did you add any products in US and Europe for the quarter?

Pankaj Patel No.

Moderator Thank you. The next question is from the line of Amit Shah from Motilal Oswal Securities. Please go ahead.

Nimish This is Nimish here. All questions have been answered, just one thing remaining. Out of your total debt how much is US dollar denominated debt?

Ganesh Nayak About Rs. 805 crores is denominated in foreign currency. It is mostly dollar denominated.

Nimish And just one more question on the balance sheet that has been shared, while we see that debt has gone up very significantly and you have indicated some reasons that CapEx, working capital, Neshar acquisition, actually the debt increases fairly significant over the last six months. So would you like to share some more clarity on --?

Pankaj Patel We have some strategic investments coming up, so we are basically getting ready for that.

Nimish Okay. And what would be the nature of this investment?

Pankaj Patel I think we let you know when we decide to do it.

Nimish Okay. But it would be inorganic initiative?

Pankaj Patel Yeah.

Moderator Thank you. The next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah The question pertains to Zydus Wellness. If you could tell us why the inventory for the quarter has gone up?

Pankaj Patel We started manufacturing operation on our own so we have now raw material, work-in process and finished goods and also we operate this out of Sikkim and given that logistics we have actually increased the inventory levels because in case there are some road disruption because of some natural calamity in that area, production should not suffer. So obviously we will see a higher inventory levels.

Grishma Shah And the second question pertaining to Zydus Wellness is that you said the Sugar Free category has been growing slowly during the quarter, any particular reason for the same?

Pankaj Patel No, I do not have reasons for that. Maybe we are not doing enough for the market environment, because we are a market leader, that is why it is not growing.

Grishma Shah And given that the competitive intensity in the categories that you are operating has increased, what is the management strategy to combat and see a higher level of growth? Because historically, we have seen a very robust work in the sales for the company?

Pankaj Patel I think the two of our products have got serious competitive pressure, both Face Wash and Scrub and this has been basically a large player in the field who has been aggressively advertising and spending a lot on building it and entering this category. We continue to remain leader as far as face scrub is concerned and face wash also we have continued to remain the second or third or fourth player as of now. So going forward we would not like to basically follow the suit by just by doing advertisement response but we are basically going to increase our below the line activity and we expect that we will be able to bring up our sales. It would take some time because it does not change immediately but we expect that in next two quarters we would have done enough efforts to really bring back our growth.

Grishma Shah So are there any also aggressive new product line lined up given that growth in the market would be a

combination of the existing products and the new products contributing to the growth for the next two years?

Pankaj Patel We have a number of products lined up but we are basically going to focus on our current categories and where we have significant growth opportunities still there. So we are going to focus but we also would revamp brands further to get better consumer attraction and maybe offering a better consumer benefit through that. And through that basically we are planning to respond to this high competition which is happening today. There is a lot of media spend you see from big players like Hindustan Lever and Johnson & Johnson and other people. And we expect that we would respond to them with our below the line activity plus of course advertising.....

Grishma Shah So this year is going to be a year of consolidation for us maybe. What would be then –

Pankaj Patel On a top-line this year will be a year of consolidation, on bottom-line we will still do better than the last year because of tax benefit, that is the way the whole of the year will go.

Grishma Shah And any concerns on your key raw materials that you would like to highlight going ahead because by and large your gross margins remain to be stable?

Pankaj Patel Yeah, it looks like they are remaining stable. We always have issues, oil prices currently but stable. And but we have forward cover so we do not see much pressure on the margins from the balance part of the year.

Grishma Shah And any inorganic acquisitions plans for Zydus Wellness going ahead or will continue to grow organically?

Pankaj Patel We would definitely look at inorganic play in Zydus Wellness, we currently do not see a good target but we are open to look at that as well.

Moderator Thank you. The next question is from the line of Bhagwan Chowdhry from India Nivesh. Please go ahead.

Bhagwan Chowdhry Just one question on the other income side. If I am calculating rightly despite 90 million ForEx loss in the current quarter, the other income is on the higher side, so can you please put some color on that?

Ganesh Nayak You are talking about other operating income, right?

Bhagwan Chowdhry Other income; this is more to EBIT level?

Ganesh Nayak Other income included export incentives and processing income. It also includes royalty.

Bhagwan Chowdhry And one question on the domestic front, we have seen in the last two years company has launched many new molecules, means almost launching 20-25 products in a quarter. So my question is carry on all the molecules in the domestic market or what kind of structure that we have, means are we earning all the molecules we launched in the last one or two years in the domestic market or we have withdrawn some of those products just....what kind of success we have out of these molecules in domestic market?

Pankaj Patel I just mentioned sometime back that in about 50% plus products that we have launched we have seen success.

Moderator Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar I have a few questions on Zydus Wellness. Sir, in Face Wash and Scrub category, have you witnessed any decline in market share because of the aggressive competition from the multinationals?

Pankaj Patel Yes.

Kaustubh Pawaskar So going ahead as you say that you would be looking at improving the sales but would you be focusing also on improving the market share or arresting the market share at the current levels?

Pankaj Patel I think there is a hope into this whole problem. What has happened because of aggressive entry of these, the overall market size has increased significantly. So going forward we clearly see that there is an opportunity for us to really to consolidate the market share and also get better sales number because the overall market size itself has bigger and bigger. That is our strategy.

Kaustubh Pawaskar And with supporting your brands with adequate brand building and promotional activities, are you looking at improving the penetration of your products because whatever categories you are in Zydus Wellness, the penetration level is low. So are you focusing on improving the penetration so that will add on to your top-line in the coming quarters?

Pankaj Patel Yeah, we are looking at that.

Kaustubh Pawaskar How ActiLife is doing? Are you selling that product in overall India or is it still being sold in particular cities?

Pankaj Patel Now we are selling it all India and sales are as per our plan.

Kaustubh Pawaskar And when can we expect the new product in the market or still you are looking for ActiLife to get bit mature in the market and then you would be launching the products?

Pankaj Patel That is right.

Kaustubh Pawaskar Okay. So we should not expect the ad spends to move from the current levels? Because you would be focusing –

Pankaj Patel It would remain in similar percentages, yeah.

Kaustubh Pawaskar Okay. And sir in this quarter the tax rate was down to 10%. Is it mainly because you do not have

Nutriline much of sales happen in the Q2 and the sales are more on Yuth and Sugar Free side, but in Q3 and Q4, our two quarters where Nutriline sales jumps up, so can we expect tax rate to move up in Q3 and Q4, because Nutriline you manufacture from your Ahmedabad facility?

Ganesh Nayak The overall tax rate will be less than MAT rate.

Moderator Thank you. The next question is from the line of Kartik Mehta from Daiwa. Please go ahead.

Kartik Mehta Almost half of this entire Q3 is over, do you see any higher than expected sales in this quarter in the domestic business because of the delay of the monsoon as you are one of the largest players in the anti-malarials because typically the first half always would have captured most of the growth?

Pankaj Patel No, we do not see that.

Moderator Thank you. The next question is from the line of Priti Arora from Kotak. Please go ahead.

Priti Arora A follow-up, can I have the Generic segment growth for the domestic formulations?

Ganesh Nayak 10%.

Priti Arora And for the first half?

Ganesh Nayak First half it is 11%.

Priti Arora Like you have outlined all the initiatives now FY12 is going to be a low base for you. So do you think FY13 you could on this low base match industry growth for domestic business?

Pankaj Patel We should.

Priti Arora And industry growth would be 13-14% for you?

Pankaj Patel Yeah.

Priti Arora And just one question on Neshar, it will be an important addition in case your resolution of warning letter does not happen next year. So if the two products you outlined get launched, what is the kind of sales target you are looking at?

Pankaj Patel I do not have numbers with me to give you, but we can always discuss this offline.

Priti Arora Is Metoprolol one of the products you are looking to launch next year?

Pankaj Patel No.

Priti Arora But right now you are saying you are doing annually \$30 million run rate?

Pankaj Patel Yeah.

Moderator Thank you. The next question is from the line of HR Gala from Quest Investment Advisors. Please go ahead.

HR Gala I have a few questions; can you sir tell us what is the development on the Abbott arrangement?

Pankaj Patel On the Abbott arrangement we have now got most of the market dossiers filed and product approvals are expected anytime and the business is expected to start next financial year.

HR Gala In FY13?

Pankaj Patel Yeah.

HR Gala Another question is looking to the way in which because of this exchange loss and all that, do you expect current year profits to degrow for the consolidated entity?

Pankaj Patel We do not think so.

HR Gala There will not be any degrowth in profit?

Pankaj Patel No, because I think this all is one-time thing hopefully rupee-dollar exchange rate will not exceed 55. If that becomes 55 then –

HR Gala Then there will be an issue?

Pankaj Patel That will be an issue.

HR Gala You had given the H1 FY12 ForEx loss number like 29 crores included in general expense and 45 crores in interest, is it correct?

Pankaj Patel Yes.

HR Gala Can you give H1 FY11 corresponding figure sir?

Ganesh Nayak Rs. 8 million was in other expenses and Rs. 111 million in interest.

HR Gala So that is 11.9 crores, correct?

Ganesh Nayak Right.

HR Gala And that was a loss?

Pankaj Patel Yeah.

HR Gala And we had set this guidance of 3 billion by FY16, do you think all the levers are working in positive manner to achieve that target?

Pankaj Patel Yeah, we have our plans on place and everything is moving towards that side.

HR Gala But does that 3 billion include any likely acquisition that you might make or it will be based on --?

Pankaj Patel We have not considered acquisition as part of this.

Moderator Thank you. The final question is from the line of Praful Bohra from Nirmal Bang. Please go ahead.

Praful Bohra Can you quantify the DEPB benefits in this quarter and the first half?

Vishal Gor Total export incentive majority of which was DEPB was Rs. 27 million during the quarter.

Praful Bohra For the first half?

Pankaj Patel About Rs. 5.3 crores, Rs. 53 million.

Moderator Thank you. I would now like to hand the call over to Dr. Ganesh Nayak for closing comments. Please go ahead sir.

Ganesh Nayak Thank you very much and we look forward to talking to you again in the month of January for our next quarter results. Thank you very much.

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