

## Investors/Earnings Conference Call (January 27, 2009)

**Moderator:** Good morning Ladies and Gentlemen. Thank you for standing by. This is Subhlaxmi, the conference moderator, for your call today. We welcome you to the post result conference call of Cadila Healthcare Ltd. We have with us today Mr. Pankaj Patel, Chairman and Managing Director from Cadila Healthcare Ltd. At this moment all participants are in the listen-only mode. Later we will conduct question and answer session. At that time if you have a question please press \* and 1. I would now like to turn the conference over to Mr. Pankaj Patel, over to you sir.

**Pankaj Patel:** Thank you. Good after-noon and welcome to our post-result tele-conference for the third quarter of 2008-09. I take this opportunity to wish you all a very happy and prosperous 2009.

First of all, let me take you through broad financial numbers.

### During the quarter, on a consolidated basis,

- Total operating income up by 29% y-y to Rs. 7491 Mio. from Rs. 5794 Mio. last year, driven mainly by
  - 12% growth in domestic formulations business,
  - 87% growth in US and 41% growth in Brazil business,
  - 95% growth in exports to emerging markets with inclusion of Simayla, South Africa
  - 24% growth in consumer business, and
  - 23% growth in API (ex. Nycomed JV)
    - PBIDT up by 47% y-y to Rs. 1525 Mio. from Rs. 1037 Mio.
    - PBIDT margin (% to operating income) up by 2.5% to 20.4% against 17.9% last year. Operating exchange rate fluctuation loss (on receivables and payables) stood at Rs. 79 Mio. We also gained profit of Rs. 94 Mio on sale of Patalganga API mfg. plant.
    - Operating profit before tax (excl. exceptional items, non-operating items and exchange rate change on forex receivables, payables and loans) up by 54% y-y to Rs. 971 Mio. from Rs. 632 Mio. last year.
    - Adverse fluctuation on operating forex exposure (receivables and payables) resulting in loss of Rs. 79 Mio. vs. gain of Rs. 12 Mio last year and on conversion of Forex debt resulting in loss of Rs. 111 Mio. vs. gain of Rs. 55 Mio. last year restricted the PAT growth to 17%, which was up to Rs. 605 Mio. from Rs. 516 Mio. last year.
    - EPS, after considering proposed increase in share capital under scheme of restructuring of consumer business, has been at Rs. 4.43 per share vs. Rs. 4.11 last year, up 8%.

### During the quarter

- Domestic formulations business posted healthy growth of 12% with launch of 14 new products, incl. line extensions, of which 5 were FIRST IN INDIA.
- Continuing robust performance quarter-on-quarter, US business posted sales of Rs. 1066 Mio., up 87% y-y and bottomline (before developmental expenses after minority interest) of Rs. 65 Mio., up 151%.
- We filed 2 more ANDAs and 4 more DMFs with the US FDA, taking total to 80 ANDA filings and 71 DMFs.
- We received 5 more new product approvals for French market, taking cumulative to 26 approvals.
- Exports to emerging markets grew by 95% and posted sales of Rs. 472 Mio, which includes sales of Rs. 59 Mio. of Simayla Pharma, South Africa.
- Brazil business (branded + generics) registered sales of Rs. 472 Mio., up 41%.

- Recently acquired Laboratories Combix, Spain posted sales of Rs. 64 Mio.
- The composite Scheme of Arrangement to restructure the consumer business of the group was approved by the Hon'ble High Court of Gujarat.
- With this, the consumer business of Cadila Healthcare Ltd., was integrated into Carnation Nutra Analogue Ltd., and subsequently renamed as Zydus Wellness Ltd.
- For the Quarter, the consumer business on a consolidated basis grew by 24% and posted sales of Rs. 531 Mio.
- API business (other than Nycomed JV) registered 23% growth, with exports growing at 35%.
- We became the 1st Indian Pharma company and 2nd pharma company in the world to receive WHO accreditation for Lyssavac N - the Purified Duck Embryo Rabies Vaccine (PDEV) .
- Strengthening our research pipeline, we filed 6th IND application for 'ZYT1', a novel lipid lowering molecule with the DCGI.
- We acquired Etna Biotech, Italy based subsidiary of Dutch biopharma co. – Crucell, NV.

The deal, which marks Zydus Cadila's first acquisition in the research space, offers the group a highly evolved research platform for developing new vaccines and technology.

Thank you and we will now start the Q&A session. You may address questions on domestic market, non-regulated markets and regulated markets to me and on results and finance to Mr. M K Patel.

Over to the co-ordinator for the Q&A.

**Moderator:** Thank you sir. Ladies and gentleman we will now begin the live question and answer session. If you have a question please press \* and 1 on your pushbutton phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the # key. We have a first question coming from Mr. Bhavin Shah from Dolat Capital.

**Bhavin Shah:** Good afternoon everyone and congrats on the numbers. Sir if you could share update on Australia joint venture and what component would be the FOREX debt of the total debt, thank you.

**Pankaj Patel:** The Hospira joint venture has got approval from European authority now. The commercial sales will happen in April 2009.

**Bhavin Shah:** Okay.

**Pankaj Patel:** This is to ensure that we have a full tax benefit available.

**Bhavin Shah:** Okay. And in terms of consignments or contracts would you share any information in terms of number of APIs to be exported or...

**Pankaj Patel:** It is not the API. It is formulations.

**Bhavin Shah:** Formulations yes.

**Pankaj Patel:** Yeah and we expect that next year for the full year we will be expecting a sale of approximately Rs. 300 Crores for the company and Rs. 150 Crores for Zydus.

**Bhavin Shah:** Okay sir. And what would be the FOREX debt of total debt as of today.

**MK Patel:** Total debt is Rs. 1210 Crores of which Rs. 900 Crores is in FOREX and of which about Rs. 400 Crores is hedged.

**Bhavin Shah:** Rs. 400 Crores would be the hedging.

**MK Patel:** Yes.

**Bhavin Shah:** Okay thank you so much. I will be in the queue just in case.

**Moderator:** Thank you Mr. Shah. We have a next question from Mr. Kartik from Daiwa Securities.

**Mr. Kartik:** Yeah hi, just wanted to check with you what is your industry outlook for the domestic formulation. Are you seeing overall industry or any particular segment where the sales outlook would be less. And in terms of your sales from the API plant in Patalganga, I just missed the number if you can share that. Thank you.

**Pankaj Patel:** The domestic formulation market will continue to grow at the similar rates so I think around anything between 10% to 14% is the growth which we expect the market to continue growing at. We do not see a slowing down of market at all at this moment. And as a company we are also very confident that we would be growing at market plus rates. The only difference which you must notice is that last year all the sales were clocked with an Excise duty at the rate of 16% which was then reduced to 8% and now it has become 4%. So obviously the sales number would get impacted to the extent of the Excise duty rate change because that way the MRP of the product, and hence NRV of the product will come down, but overall the markets will still continue growing at double digit that is what we expect.

The Patalganga API manufacturing plant was sold off and the profit on sale was Rs.93 million.

**Mr. Kartik:** Sir just one more thing is that, any abnormal increase in working capital in any particular region or any such concerns even for the domestic part of the business.

**Pankaj Patel:** No we do not see any changes in working capital levels. no increase as far as domestic or exports are concerned. There are no significant changes in the working capital compared to what it was prevailing before.

**Mr. Kartik:** Thank you.

**Moderator:** Thank you Mr. Kartik. We have a next question from Mr. Rahul Sharma from Karvy.

**Rahul Sharma:** Wanted the breakup of export formulation, US, Brazil, France, Japan and rest of the world. And also wanted the breakup of Altana revenues and profits.

**Pankaj Patel:** Sure.

**Rahul Sharma:** For the quarter and for the nine months also.

**Pankaj Patel:** Okay, the sales in US was Rs.1066 million for the quarter and for the 9 months it was Rs.2683 million. In France, the sales was Rs.724 million for the quarter and for the 9 months it was Rs.1646 million.

**Rahul Sharma:** Yes.

**Pankaj Patel:** Brazil operations sales was Rs.472 million for the quarter and for the 9 months it was Rs.1297 million. Recently acquired Laboratory Combix posted sales of Rs.64 million. Japan, the sales was Rs.67 million for the quarter and Rs.131 million for 9 months. Simayla posted sales of Rs.59 million for the quarter and Rs.171 million for the 9 months.

**Rahul Sharma:** Can you repeat South Africa again.

**Pankaj Patel:** Rs.59 million for the quarter and Rs.171 million for 9 months. In other emerging markets the sales for the quarter was Rs. 413 million and for 9 months it was Rs.1064 million. As far as our JV in Nycomed is concerned the sales for the quarter was Rs.84 million and profit was Rs. 38 million.

**Rahul Sharma:** 38 million ?

**Pankaj Patel:** Yeah 38 million.

**Rahul Sharma:** Okay and what about 9 months.

**Pankaj Patel:** 9 months the sales was Rs.680 million and profit was Rs.477 million.

**Rahul Sharma:** Okay could you also share the consumer business revenue breakup.

**Pankaj Patel:** Yeah, consumer business the sales for the quarter was Rs.531 million and for the 9 months it was Rs.1502 million.

**Rahul Sharma:** How would you divide it into Carnation, Sarabhai and the consumer business?

**Pankaj Patel:** It does not include Sarabhai, Sarabhai is separate. Sarabhai is now Zydus Animal Health Ltd.. The sales of Rs.531 million includes only Nutrilite, Sugar Free and Everyuth. Animal health business posted sales of Rs.270 million for the quarter and Rs.860 million for 9 months.

**Rahul Sharma:** Okay. How much is Carnation Nutra Analogue and the consumer that part of the business contribute.

**Pankaj Patel:** Rs.188 million for the quarter for Carnation and for 9 months it was Rs.517 million. And for the rest of the consumer business, sales was Rs.343 million for the quarter and Rs.985 million for 9 months.

**Rahul Sharma:** Okay. Sir just wanted to know any outlook for your Altana venture for FY2010.

**Pankaj Patel:** FY2010 we expect a good demand and we expect that average earning from these JV between Rs.50 Crores and Rs.60 Crores per year would continue.

**Rahul Sharma:** Okay sir in terms of revenues.

**Pankaj Patel:** In terms of profits.

**Rahul Sharma:** Okay. And sir any update on any other generic companies coming in on the Pantoprazole front or Sun withdrawing or any update on that sir?

**Pankaj Patel:** No we do not have any updates.

**Rahul Sharma:** Okay. And could you take us through the FOREX gain and loss which is being reflected in the books.

**MK Patel:** The FOREX loss for the quarter on operation side that is on receivables and payables was Rs.79 million net for the quarter and Rs.195 million for 9 months.

**Rahul Sharma:** Sorry.

**MK Patel:** Rs.195 million for the 9 months.

**Rahul Sharma:** Okay.

**MK Patel:** On the debt side the loss which is already reflected in our P&L was Rs.111 million for the quarter and Rs.356 million for 9 months.

**Rahul Sharma:** Okay, but this FOREX on operations where has it been reflected ?

**MK Patel:** It is incorporated in the general expenses.

**Rahul Sharma:** Okay, thank you.

**Moderator:** Thank you Mr. Sharma. We have the next question from Mr. Puneet Adhia from MP Advisor.

**Nimish Mehta:** Hi this is Nimish Mehta and congrats for a great set of numbers. My first question is related to the domestic formulations, I mean we have been expecting a robust performance almost up by 20% as shared by you in the last conference call. The performance is just about 12% and what do we now think about our 15% growth guidance for domestic formulation for the year.

**Pankaj Patel:** We expect that next quarter we should touch that number. I think you should understand that the government reduced the Excise duty and as a result our actual growth is high but basically from you know the excise component reduced from 16% to 8% and now from 8% to 4%. So our selling price has come down by almost 4% to 5% so if you see over a period and compare apple-to-apple, then there is between 4% to 5% difference in the sale what we clocked last year and this year. So actual growth is higher but it would not get reflected because the selling price have come down because of the Excise duty.

**Nimish Mehta:** What would be the growth on a net of Excise basis, in that case.

**Pankaj Patel:** I do not have that number, we can provide you offline.

**Nimish Mehta:** Okay. And what do you see the outlook next quarter and also going forward from here for domestic.

**Pankaj Patel:** As I mentioned before we would continue growing at market plus so anything between 12% to 14% should be definitely achievable number for the next quarter and going forward also.

**Nimish Mehta:** And you do not see any issues related to debtors because of the credit crisis.

**Pankaj Patel:** No absolutely not.

**Nimish Mehta:** Okay. My next question is related to the hike in interest expense that we have seen which is probably almost double, so any color on that why that happened and is this a base that we should look forward to.

**Pankaj Patel:** Mainly because of the increase in borrowing, number 1. Number 2, average rate which was running at about 5% last year has clocked almost 8.5% this year.

**Nimish Mehta:** I see. And it is going to be like that ...

**Pankaj Patel:** And let me tell you last year it was also offset by a considerable foreign exchange gain. Last year, there was a gain of about Rs. 5 Crores plus in quarter 3 and Rs. 15 Crores plus in 9 months on transactions of FOREX loans. Whereas this year we have loss of about Rs. 11 Crores in this quarter and Rs. 36 Crores for 9 months. So that also has added to the cost of borrowings.

**Nimish Mehta:** Right. How much increase in borrowing have we made between let us say Q2 and Q3 because we see a substantial increase in Q2 and Q3 as well, sequential increase in interest rates sir.

**Pankaj Patel:** Approximately Rs.135 Crores.

**Nimish Mehta:** Rs. 135 Crores of increase debt.

**Pankaj Patel:** Yes.

**Nimish Mehta:** Okay.

**Pankaj Patel:** This was mainly done for funding some of the acquisitions. We also acquired minority interest in the US subsidiary so these funds were raised only for that purpose.

**Nimish Mehta:** Okay. Finally what is the tax rate that we should be looking at assuming this quarter's tax rate is also substantially higher than ...

**Pankaj Patel:** See the current year the tax rate has gone up because of so many things, but you can expect the rate to remain at about anywhere between 15% to 17%.

**Nimish Mehta:** For this year it should remain at whatever it is at 9 months.

**Pankaj Patel:** No this year it should come down in Q4 so overall when you see the year end you will see anywhere between 15% to 17%.

**Nimish Mehta:** 15% to 17%.

**Pankaj Patel:** Yes.

**Nimish Mehta:** And you mentioned about Hospira JV that you would be commencing sales from April because of tax reasons. Can you elaborate on that I could not understand ...

**Pankaj Patel:** Basically the company will start making commercial billings from the next quarter onwards that is what we mentioned so that will allow us to get a full year tax benefit, that is only what we have mentioned.

**Nimish Mehta:** Otherwise the JV has ...

**Pankaj Patel:** It has received the approval and it is currently doing the validation processes.

**Nimish Mehta:** And what about the production, has it started commercial production?

**Pankaj Patel:** Commercial production will start from April.

**Nimish Mehta:** Oh that will also start from April.

**Pankaj Patel:** Yeah.

**Nimish Mehta:** I see. Can you guide us through the margin that you would have in Hospira JV you mentioned...

**Pankaj Patel:** At this moment it is difficult to give you a number.

**Nimish Mehta:** Okay. Okay fine sir thank you very much and best of luck.

**Moderator:** Thank you Mr. Puneet. We have a next question from Mr. Jesal Shah of JM Financial.

**Jesal Shah:** Yeah just a question on foreign exchange losses that you booked of Rs.111 million. So if you can just explain what is the hedge outstanding currently.

**MK Patel:** Jesal, hedged dbet is about Rs.400 Crores remaining Rs.500 Crores is open.

**Jesal Shah:** Sorry Rs.400 Crores is what exactly.

**MK Patel:** Rs.400 Crores worth of debt has been hedged.

**Jesal Shah:** ...has been hedged?

**MK Patel:** Yeah.

**Jesal Shah:** And Rs.500 Crores is ...

**MK Patel:** Rs.500 Crores is open transaction which, we generally keep it as natural hedged against receivables.

**Jesal Shah:** Okay so basically your current hedges are about Rs.400 Crores, is that right.

**MK Patel:** Yeah, yeah.

**Jesal Shah:** Okay and so the entire foreign exchange Rupee depreciation you would have mark-to-market.

**MK Patel:** At present yes.

**Jesal Shah:** Okay so nothing has been taken into balance sheet...

**MK Patel:** No.

**Jesal Shah:** Okay. And you also mentioned, so this Rs.400 Crores I think you know in the initial comment you had mentioned as against the Rs.900 Crores of FOREX loans so just to understand, so basically is it right to presume that you have actually shorted Dollars Rs.400 Crores worth of Dollars you have shorted have you sold Dollars.

**MK Patel:** Yeah, yeah we have sold forward yes.

**Jesal Shah:** Okay.

**MK Patel:** From receivables.

**Jesal Shah:** Sorry against receivables you said.

**MK Patel:** We have sold forward out of receivables.

**Jesal Shah:** Right, okay. And this Rs.900 Crores of foreign exchange loss you mentioned is it all in working capital form.

**MK Patel:** Not working capital form, I mean substantial portion of that is for acquisitions and investments.

**Jesal Shah:** Right. Okay and the last question is on the new JV, the new thing that you talked about Rs.300 Crores of JV that you said the Rs.150 Crores will accrue to Zydus next year. So what do you say is the in-market sales for these products?

**Pankaj Patel:** I do not have the number Jesal with me, in front of me, but offline we can provide you the information.

**Jesal Shah:** Right. Okay thank you.

**Moderator:** Thank you Mr. Shah. We have a next question from Mr. Akshat Vyas of MS Global.

**Akshat Vyas:** Yeah good evening and congratulations for good set of numbers. My first question is regarding your strategy about vaccines, is you got approval from WHO as well as you have acquired Etna Biotech now, could you just give us some color about your strategy going forward on vaccines, because as it is very few players who are there in this segment and how you know you look forward this segment a little more in detail.

**Pankaj Patel:** Etna Biotech has certain technologies which are proprietary and patented.

**Akshat Vyas:** Okay.

**Pankaj Patel:** And in the acquisition we also get those technologies and strength which will allow us to get into vaccines. It also has some leading programs in some novel vaccines and HPV vaccine so both these programs which are innovative programs which provides us a newer platform for technology going forward for using some reversed genomic technologies.

**Akshat Vyas:** My understanding is that Etna Biotech which was earlier a subsidiary of Berna Biotech they were the pioneer in this Pentavalent vaccines. So do you also look forward to get into that segment.

**Pankaj Patel:** We would be looking forward to all the vaccine segments including the one you mentioned, but advantage of this acquisition is that it basically gives us access to all those technologies and strength.

**Akshat Vyas:** And what could be the addressable market size for this vaccine you got approved from WHO, this anti-rabies vaccine.

**Pankaj Patel:** Well as this moment WHO has not come back with, they have only placed the trial order, they are going to basically do a field trial now with our vaccine and then they will give us a projections.

**Akshat Vyas:** Okay.

**Pankaj Patel:** So at this moment I cannot give you any guidance on that.

**Akshat Vyas:** And how many suppliers are there currently for WHO?

**Pankaj Patel:** Only 2.

**Akshat Vyas:** Okay.

**Pankaj Patel:** So one is a multinational company from Europe and we are second.

**Akshat Vyas:** Okay. And sir second thing like in terms of your FOREX loss and gain you said that one you have routed in your P&L account and then you have some in receivables and payables of around Rs.79 million for the quarter and Rs.195 million for the 9 months, where this FOREX loss shown ?

**Pankaj Patel:** See as far as forex losses on receivables and payables are concerned, they are grouped in other expenses. As far as forex losses on borrowings are concerned they are shown separately along with interest cost.

**Akshat Vyas:** Sorry sir can you just come again please.

**Pankaj Patel:** As far as trade loss is concerned it is grouped in other expenses.

**Akshat Vyas:** Okay.

**Pankaj Patel:** And as far as losses on borrowing is concerned it is grouped along with interest.

**Akshat Vyas:** That is okay, but in interest component you have shown about Rs.111 million loss for the quarter.

**Pankaj Patel:** Yes.

**Akshat Vyas:** So then where is this Rs.79 million has been shown, is it part of other expenditures.

**Pankaj Patel:** It is part of other expenses.

**Akshat Vyas:** And is it realized loss or it is just mark-to-market only.

**Pankaj Patel:** Part of it is realized and part of it is mark-to-market.

**Akshat Vyas:** Can you just give a color how much would be realized sir out of this.

**Pankaj Patel:** We can give you offline.

**Akshat Vyas:** Okay sir thanks that is all from my side, thank you very much.

**Moderator:** Thank you Mr. Akshat. We have a next question from Mr. Prashant Nair of Citi Group.

**Prashant Nair:** Yeah is there any gain or loss that you have made on the hedge position or is that netted off against or included in the loss figures you mentioned.

**MK Patel:** It is always netted off and whatever losses are reported are net of mark-to-market losses and realized losses.

**Prashant Nair:** Okay, yeah. So this Rs.79 plus Rs.111 million includes everything related to FOREX.

**MK Patel:** Yes, yes.

**Prashant Nair:** Okay thanks a lot sir.

**Moderator:** Thank you Mr. Nair. We have a next question from Mr. Kartik from Daiwa Securities.

**Mr. Kartik:** Yeah hi, sir if I am not wrong, you said that Rs.84 million was the share of our sales for the Nycomed JV and made a profit of Rs.38 million. So the profit margin here then comes to about 45% which is very low. Has it to do something with authorized generic launch with the innovators?

**MK Patel:** There are some one time expenditures and we have put it in this quarter and that is why you see the profits

being low. You need to look at the YTD numbers to get more clarity.

**Mr. Kartik:** Yeah sir then in that case the next thing to check would be that we made a profit of about Rs. 48 Crores from this JV in FY2008 were as for the first 9 months of FY2009, we have already made about Rs. 48 Crores. So are we selling it to some other guys or how do I read this.

**Pankaj Patel:** We basically are supplying to our partner and the market is doing well for the partner.

**Mr. Kartik:** Okay so is it fair to assume that till the time the genericisation of the market you will be able to sell at the same run rate as you have been.

**Pankaj Patel:** Well we expect that to happen, but as I mentioned earlier to another question is that for the financial year also we expect that the number should be good and we expect anything between Rs.50 to Rs.60 Crores profit will accrue to our P&L for the next financial year also.

**Mr. Kartik:** Rs. 50 to 60 Crores that will be your share right.

**Pankaj Patel:** Yeah our share of course.

**Mr. Kartik:** Yeah thank you.

**Moderator:** Thank you Mr. Kartik. We have a next question from Mr. Puneet from MP Advisor.

**Nimish Mehta:** Yeah hi, this is Nimish again. I have a couple of follow up questions, first of all can you tell us do you see that the outlook on Altana JV will get impacted because of the size of Wythe deal whereby....

**Pankaj Patel:** There should only be upside because of that.

**Nimish Mehta:** I mean I am just asking I do not know actually the outlook.

**Pankaj Patel:** Well currently I cannot say but well why should it be negative? I do not see any reason that it should be negative.

**Nimish Mehta:** Okay. Second can you comment on the margins from the France business has it been higher, lower how has it been because it has....

**Pankaj Patel:** I think we are maintaining the same level of margins so it is not lower.

**Nimish Mehta:** Sir can you share what was the profit number of France.

**MK Patel:** For the 9 months it was Rs.151 million.

**Nimish Mehta:** Okay.

**MK Patel:** Vis-à-vis Rs.71 million last year.

**Nimish Mehta:** I see okay. And finally a quick question on interest rate outlook do you see this interest rate going forward to be the same, I mean the high interest rate that ....

**Pankaj Patel:** I would ask you that question rather than I answering because I do not think we can forecast what is going to happen. The interim policy was announced by RBI today so you might be knowing it better. I do not want to guess that, sorry.

**Nimish Mehta:** I see okay, but I mean is it safe to assume because a large part of it is related to the foreign exchange loans the interest rate would be more a function of foreign interest rate or LIBOR interest rate.

**MK Patel:** Rates are to be very frank more or less stable in last quarter, but the issue is that the markup is going up, because whatever easement has taken place in LIBOR are eaten away by the markup so more or less interest rates despite

reduction in interest rate by other countries, for India it remains same.

**Nimish Mehta:** I see okay I got it, okay.

**MK Patel:** You can take 8-8.5% as of now.

**Nimish Mehta:** I see okay. Thank you very much.

**Moderator:** Thank you Mr. Puneet. Participants may please press \* and 1 to ask any further questions. We have a next question from Mr. Gupta from ING Investment Management.

**Cheemu Gupta:** Yeah it is Ms. Gupta. Sir you have given the breakup of the sales for 3 months and 9 months could you give me the similar numbers for last year same quarter.

**MK Patel:** Which company.

**Cheemu Gupta:** ING Investment Management.

**MK Patel:** No, no which company, which division you want breakup.

**Cheemu Gupta:** Okay sir this is for all the geographies US, France, and Brazil.

**MK Patel:** Is it possible that we can give you offline because it is going to take a lot of numbers there. We have it ready we can give you in the next half an hour.

**Cheemu Gupta:** Okay.

**MK Patel:** So if you can contact Mr. Vishal Gor he will be happy to provide you that information.

**Cheemu Gupta:** Okay sir.

**MK Patel:** Yeah.

**Cheemu Gupta:** And what is your debtor days outstanding now?

**MK Patel:** Debtor days outstanding, it is you know different for different markets I mean you cannot arrive at a consolidated number.

**Cheemu Gupta:** No overall for the company.

**MK Patel:** Overall I can say if you are talking about receivables it is in the vicinity of 60 to 70 days.

**Pankaj Patel:** It is again different for domestic that is India and the different geographies where we are operating.

**Cheemu Gupta:** Okay sir. And sir any change in policy we have followed in the Brazil market where we are seeing some kind of credit crunch and hence more concern on the debtors.

**MK Patel:** Not really I mean we have so far not experienced any type of credit crunch in Brazil because this is formulations whatever you are talking about is API I believe. We sell to the customer directly to the pharmacy in the Brazilian market so we are not seeing any problem at the moment.

**Cheemu Gupta:** Okay and sir what would be your R&D expenditure for this quarter.

**Pankaj Patel:** The R&D expenditure for the quarter is Rs.251 million.

**Cheemu Gupta:** Okay sir thank you.

**Moderator:** Thank you Ms. Gupta. We have a next question from Mr. Jesal Shah from JM Financials.

**Jesal Shah:** Yeah just wanted to understand the foreign exchange thing a bit better because you know you said Rs. 900 Crores is a FOREX liability and Rs.400 Crores is the hedge position so this is about Rs.1300 Crores. Now if I look at the sequential Rupee depreciation ...

**Pankaj Patel:** No, Jesal out of Rs.900 Crores, Rs.400 Crores is booked so left out is Rs.500 Crores. So total foreign exchange debt is Rs.900 out of Rs.1200 Crore. So Rs.300 Crore is Rupee debt.

**Jesal Shah:** Oh so Rs.900 Crores is your foreign exchange denominated debt, right.

**Pankaj Patel:** Yeah.

**Jesal Shah:** This Rs.400 Crores you said is your hedge position.

**Pankaj Patel:** Yes out of the Rs.900 Crores Rs.400 Crores is hedged.

**Jesal Shah:** So meaning that you have gone long on Dollar.

**Pankaj Patel:** Yes.

**Jesal Shah:** Because you have future Dollar liabilities so you have gone long on Dollars, is that?

**Pankaj Patel:** Yeah

**Jesal Shah:** Alright this Rs.500 Crores is your net exposure?

**Pankaj Patel:** Yeah it is net exposure and I mean it always remains that natural hedge against receivables.

**Jesal Shah:** Okay so basically this is coming to Rs.500 Crores is your net foreign exchange liability open?

**Pankaj Patel:** Yeah. I think Jesal if I can explain you policy rather than the numbers, see the policy is that we have a continuous exports activity going on.

**Jesal Shah:** Right.

**Pankaj Patel:** Based on the export activity we have a natural hedge against our long term debt. So we basically cover to the extent we cannot hedge thru exports. So based on that we have worked out that we need to hedge Rs.400 Crores worth of debt which may not be covered through the export receivables and balance since we have a natural hedge we do not cover it because ultimately if you do a long term hedge you know you can gain and you can lose also. So, considering that we keep Rs.500 open because there is a natural hedge available in our P&L.

**Jesal Shah:** Right so when you say natural hedge you see there is a receivables which is in Dollar denominated terms.

**Pankaj Patel:** Correct.

**Jesal Shah:** And also some payables you know raw material and other expenditures which will be Dollar terms.

**Pankaj Patel:** Payables are not significant for us.

**Jesal Shah:** Okay but there will be some net Dollar....

**Pankaj Patel:** Yeah correct but that is there the income of Dollars, yes.

**Jesal Shah:** And then again you said you have some loans outstanding which is in Dollar terms.

**Pankaj Patel:** Correct.

**Jesal Shah:** So as it happens and please correct me if I am wrong, it appears to me that your loan position is more than your net Dollar income is that right.

**Pankaj Patel:** You are absolutely right because, let me explain to you, total debt is about Rs.1200 Crores.

**Jesal Shah:** Right.

**Pankaj Patel:** Out of that Rs.900 Crores is the total Dollar denominated loans and balance is the Rupee loans.

**Jesal Shah:** That is right.

**Pankaj Patel:** Out of Rs.900 Crores, Rs.400 Crores is hedged and Rs.500 is basically available against the natural hedge of export earnings.

**Jesal Shah:** Right. So basically Rs.500 Crores is open.

**Pankaj Patel:** Correct.

**Jesal Shah:** And therefore that would be the gain in your accounts, in your receivables basically in your revenue front.

**Pankaj Patel:** Yeah.

**Jesal Shah:** Right. And the corresponding loss you will book in your foreign exchange loss item of Rs.11 Crores.

**MK Patel:** See in trade transactions, Jesal it always happens according to the accounting policy of the institute that trade transactions on the day you record, they are permanently recorded at the rates prevailing on that date and whatever is realization subsequent to that has to be reported at the realization rate...

**Jesal Shah:** No basically if I look at it simplistically you know you have Rs.900 Crores of FOREX liability.

**MK Patel:** Yeah.

**Jesal Shah:** Right and of which Rs.400 Crores you are saying you have hedged.

**MK Patel:** Yeah.

**Jesal Shah:** So Rs.500 Crores is open.

**MK Patel:** Yes.

**Jesal Shah:** So there is a benefit on the underlying business but because of 500 Crore is open there would be a loss in your loan translation.

**MK Patel:** It is. I mean we have provided for Rs. 1.60 this quarter as loss for current quarter.

**Jesal Shah:** Right. I was just saying that Rs.1.60 that you mentioned is about 4% and if I look at the open position it comes to about Rs.500 Crores so that comes to close to about Rs.20 Crores.

**MK Patel:** No see there is a benefit also. There is some debt on which we have balance sheet hedge on which no loss or profit is considered neither on receivables nor on payables.

**Jesal Shah:** Right, right okay fine. And other question was on your field force can you just throw some light on what the field force is, what the strength is now.

**Pankaj Patel:** About 3000.

**MK Patel:** 3000.

**Jesal Shah:** Okay. Thank you.

**Moderator:** Thank you Mr. Shah. We have a next question from Ms. Rohita Sharma from Enam Securities.

**Chandrasekhar Sridhar:** Yeah hi this is Chandrasekhar on behalf of Rohita. I just wanted to know what is your debt repayment schedule for the next 3 to 4 years?

**Pankaj Patel:** I think that we will have to give it on mail.

**Chandrasekhar Sridhar:** Alright okay.

**Moderator:** Thank you very much sir. We have a next question from Mr. Bhavin Shah from Dolat Capital.

**Bhavin Shah:** Thanks again, just wanted to know the investments that you plan to incur in the next 1 or 2 years sir, if any?

**Pankaj Patel:** Investment you are talking about CAPEX or you are talking about acquisitions ?

**Bhavin Shah:** Mainly CAPEX...

**Pankaj Patel:** CAPEX is you know we continue to spend Rs.150 Crores every year, maybe next year we have plan of Rs.170 odd Crores.

**Bhavin Shah:** Okay sir. And any acquisitions you plan to again look at in terms of ...

**Pankaj Patel:** No. At present nothing is on plate.

**Bhavin Shah:** Okay sir thank you so much.

**Moderator:** Thank you Mr. Shah. We have a next question from Mr. Shrivatra from UTI Mutual Fund

**Mr. Shrivatra:** Yeah sir can you talk a little bit more about your joint venture with Bharat Serum as well as in Zydus Noveltch what has been the progress in the last 9 months sir, thank you.

**Pankaj Patel:** Okay on the joint venture with Bharat Serum, the plant is under validation now. And we have applied for DCGI for Phase III study for few indications. We expect the approval to come very soon when we will start the clinical trials for the Novel product. And simultaneously we are also working on for applying to USFDA. On the Zydus Noveltch front, we have 6 projects under development which are all drug delivery based. They are at the stage of advance development phase, and we will update you once we have filed...

**Mr. Shrivatra:** Sir have you filed for ANDAs for these products ?

**Pankaj Patel:** Not yet.

**Mr. Shrivatra:** Okay. And sir what would be the losses for both these ventures in the last 9 months sir.

**MK Patel:** Yeah we can provide you that, as far as Zydus BSV is concerned the commercial activity has not started so there are no losses booked in this quarter, correct.

**Pankaj Patel:** See the loss for the quarter Zydus Noveltch was Rs.46 million. And the loss for BSV it is very insignificant because the commercial activity has not started, so the number is not of very significance.

**Mr. Shrivatra:** Okay and sir what is the timeframe for BSV to start the production, FY2010 should see some sales from BSV sir.

**Pankaj Patel:** You can see the FY2010 last quarter.

**Mr. Shrivatra:** Okay. Okay fine thank you sir.

**Moderator:** Thank you very much sir. Participants may please press \* and 1 to ask any further questions. To ask any further questions participants are requested to press \* and 1. Participants may please press \* and 1. Sir I believe there are no more questions, I would like to handover the question sir.

**Pankaj Patel:** Thank you very much for joining us for the teleconference and have a good evening.

**Moderator:** Ladies and gentlemen that does conclude your conference for today we thank you for your participation and for using Tata Indicom Conferencing services. You may please disconnect your lines now. Thank you have a pleasant evening.