

## Post Results Conference Call (October 27, 2009)

**Moderator:** Good evening ladies and gentlemen. Thank you for standing-by. This is Prajakta, the moderator for your conference call today. We welcome you to the conference call of Cadila Healthcare Limited. We have with us today Mr. Pankaj Patel, Chairman and Managing Director of Cadila Healthcare Limited. At this moment all participants are in listen-only mode. Later, we will conduct a 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. Please go ahead sir.

**Pankaj Patel:** Good evening. Let me take this opportunity to wish you all a very Happy New Year and welcome to the post results teleconference for second quarter of the financial year 2009-10.

Before I take you through the highlights of the quarter, let me take you through the highlights of the operations for the quarter.

During the quarter,

- Continuing its rapid growth journey, US business posted sales of Rs. 1604 Mio., up 101 % y-o-y.
- Consumer wellness business grew by healthy 37 % with all-round performance from all the three brands.
- API Exports (other than Nycomed) posted robust 44% growth.
- Domestic formulations business posted growth of 10 % with launch of 14 new products, including line extensions, of which 3 were FIRST IN INDIA.
- Within one year of initiation, the research efforts in collaboration with Karo Bio, Sweden have generated a series of novel dissociated non-steroidal glucocorticoid agonist lead compounds.
- Phase III clinical trials for ZYH1, our lead molecule for Dyslipidemia have been initiated.
- US IND for ZYD1, a novel candidate in the class of anti-diabetic agents, has been filed.
- We filed 3 DMFs with USFDA, taking cumulative filings to 82 DMFs.
- We received approvals for 2 ANDAs, with which, cumulative number of US ANDA approvals has reached 50.
- We filed 4 new product dossiers for EU market, taking cumulative new product filings to 60.

Now let me take you through broad financial highlights.

During the quarter, on a consolidated basis,

- Total Income from Operations was up by 28 % y-y to Rs. 9458 Mio. from Rs. 7409 Mio. last year, driven mainly by
  - 101 % growth in US business,
  - 37 % growth in consumer business, and
  - 44% growth in API exports (other than Nycomed JV)
- EBIDT was up by 35 % y-y to Rs. 2057 Mio. from Rs. 1525 Mio.
- EBIDT margin (% to operating income) was up by 1.1% from 20.6% to 21.7%
- Operating profit before tax (excl. non-operating incomes, exceptional items and exchange rate loss on forex loans) was up by 35 % y-y to Rs. 1540 Mio. from Rs. 1139 Mio. last year.
- Net profit was up by 39 % to Rs. 1319 Mio. from Rs. 949 Mio. last year.

- In line, EPS grew by 39 % to Rs. 9.66 per share from Rs. 6.95 last year.

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

**Moderator:** Ladies and gentlemen, we will now begin the question and answer session. If you have a question please press \* and 1 on your push button 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 from Mr. Ranjit Kapadia from HDFC Securities. Please go ahead Mr. Ranjit.

**Ranjit Kapadia:** Good afternoon and hearty congratulations for a good set of numbers. Sir my question relates to the three products which you have launched for the first time in India, if you can elaborate and my second question is relating to API export which has grown by phenomenal 44%. Do you feel that this is sustainable? And the third question is regarding the consumer products in which we have got 37% growth. How much is the organic and how much is through acquired brand?

**Pankaj Patel:** Coming to domestic formulations, the three new products which we launched during the quarter for the first time in India were – *Pazubid*, which is an injectable antibiotic, *Nucoxia MR*, which is a combination of Etoricoxib with Thiocolchicoside meant for pain relief and *Venz OD*, Desvenlafaxine Extended Release tablets in CNS segment. These are all launched first time in India and the products are doing well at this moment. Coming to your question about consumer products, the consumer product numbers are without any inorganic numbers, so they are comparable with last year. The last question of yours was regarding the API exports. API exports have been on the high side because of couple of products where the products have become generic and we are supplier to many companies in EU regions for these APIs and we believe this is a sustainable for at least next 18 months.

**Ranjit Kapadia:** Thank you so much and wish you all the best sir.

**Pankaj Patel:** Thank you.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Bhavin Shah from Dolat Capital. Mr. Shah please go ahead sir.

**Bhavin Shah:** Thanks, good afternoon and congrats on the results. Sir two basic questions, one is the domestic formulation business has delivered about 10% growth. What do you anticipate going forward in the second half? And second, your view on the French market.

**Pankaj Patel:** First of all as far as domestic formulation is concerned, we continue maintaining our guidance to you that we would be growing at market rate which is around 13-14% for the whole year. For the first six months our growth is about 11% and going forward we expect the growth to be in the vicinity of approximately 15%. With respect to your question on France, I would request Mr. Ganesh Nayak to answer that.

**Ganesh Nayak:** Good afternoon, this is Ganesh Nayak here. See over the last three years we have managed to be present in almost 70% of the total portfolio of the generic business in France. In the last quarter, total generic portfolio of all products included in France have grown at 6%, whereas the 70% of the products in which we were present has grown by 1%, while our internal sale is up 5%. So if you make a proper comparison our growth is 5x of the portfolio growth we are present in. The other point is we had one product, which was a combination of Dextropropoxyphene and Paracetamol which has been withdrawn there, so we got a slight setback because of that. Also last year for the period July to September we had launched seven new molecules, whereas this time we had only four molecules which we launched. In spite of that we have managed to pull through but more importantly in the next quarter which is October to December, last year we did not launch any new product, whereas this time we have four new products slated and one of them is Clopidogrel where we expect to garner some very good sales. So in a nutshell, as far as Zydus France goes, the last quarter was between average and good but we are expecting the next quarter to be better on the lines which I just told you.

**Bhavin Shah:** Okay so this will be on the back of how many product launches that you said?

**Ganesh Nayak:** This will be four product launches out of which one is a blockbuster which is Clopidogrel.

**Bhavin Shah:** Okay so would it be possible for you to bifurcate France and Spain in absolute revenues for the quarter?

**Pankaj Patel:** We are not providing that information now, you may contact Vishal and he will discuss with you about that

personally.

**Bhavin Shah:** One last question sir. Your view on Hospira, how is it going, where do we see the traction coming for in Cadila?

**Pankaj Patel:** Hospira has already started contributing as you know that the revenue started from the last quarter itself, but this quarter our part of 50% sales was Rs. 20 crores and it is going to rake up further as we start adding more products into the market. These are coming out of two products at this moment and by the year end we will reach to five products. So the contribution is going to go up as we move forward every quarter.

**Bhavin Shah:** Thanks a lot.

**Moderator:** Thank you for your question sir. We have a next question from Mr. Rahul S. from Karvi. Mr. Rahul please go ahead sir.

**Rahul S:** Our material costs have gone up during the quarter. What can you attribute that for and do you see this cost up for remaining quarters?

**Pankaj Patel:** We have one business which is Nycomed, which is a high margin business and this quarter the contribution in terms of percentage to total sales of Nycomed is significantly low that is why you see our material cost being higher.

**Rahul S:** Sir how do you foresee Nycomed and Hospira panning out in terms of revenues for the current year?

**Pankaj Patel:** You see we have always communicated that Nycomed and Hospira combined would ensure that we do not have any dip and in fact if you see this quarter number it clearly indicates that when you take numbers of Nycomed last year and this year and if you take Hospira additional number this year, and if you total up all that, you will see that we are reaching the same number. So the whole point here is that as we have always given you guidance that when Nycomed sales will start going down, Hospira will be able to provide enough cushions. Yes, we do not see a decline in Nycomed number happening yet. We expect next year the API production at Nycomed plant will begin and with that we will have additional revenue generation.

**Rahul S:** No but do you see that with a dip in Nycomed as has happened, do you see the increase in raw material costs continuing sir?

**Pankaj Patel:** The fact remains that the impact of dip in Nycomed is going to get neutralized because we have other businesses which are growing rapidly and which also have high margins though not as high as those of Nycomed and we see our margin improvement happening in other businesses as well. So though now we will see that Nycomed number may not be high in percentage terms of overall sales, but we will not see this dip in raw material cost to happen on a long terms basis. We would basically be able to improve our margins.

**Rahul S:** Okay. And sir what about our forward cover, what is the position of a forward cover as of now sir?

**Pankaj Patel:** Vishal can you provide that?

**Vishal Gor:** As of 30th September about \$28 million worth of receivables have been hedged forward.

**Rahul S:** Okay and what rate is it at?

**Vishal Gor:** It is about Rs. 43.5.

**Rahul S:** Okay and on the loans part could you give us clarity on the loans, on the Forex loans, any changes have happened?

**Vishal Gor:** Not really from the position as on 30th June. The consolidated gross debt on 30th September was about Rs. 1200 crores, of which about 55% are denominated in foreign currency and of that about 66% is hedged through different instruments.

**Rahul S:** Okay sir thanks.

**Moderator:** Thank you for your question sir. We have a next question from Mr. Alok Dalal from MF Global. Please go ahead sir.

**Alok Dalal:** Thank you and congratulations on a good set of numbers. Sir what is the reason for a strong growth that we are seeing in the US?

**Pankaj Patel:** Couple of reasons, one is that basically we have launched new products, we got additional market volumes from the customers and we saw that there was a demand happening because number of players are going out of US market and they are creating a vacuum in the market. Last quarter we saw Apotex going out of market and we also saw that as a result we got some opportunity to increase our sales further. So as of today if you see we have already clocked \$100 million for the calendar year 2009 in the US market. So originally our budget was \$100 million but we are seeing a much better number happening in the US now.

**Alok Dalal:** So can you tell us what kind of number that you are looking at for US now?

**Pankaj Patel:** We are looking at about \$120 million for the year.

**Alok Dalal:** And how do you see your US portfolio panning out over the next 12-18 months or so?

**Pankaj Patel:** This portfolio is very much in place. We believe that we will continue growing at a good rate in the US market. I cannot give you a typical guidance but once we finalize our budget we should be able to give you some indication as far as 2010 numbers are concerned. We see our US portfolio is very well poised with some unique products as well, so we believe that going forward also we should be able to maintain both growth rate and margin.

**Alok Dalal:** Okay thank you and how is the working capital position at this point in time?

**Vishal Gor:** The net working capital as on 30th September was about Rs. 1000 crores which included cash balance of about Rs. 330 crores.

**Alok Dalal:** Okay and how has this changed over the last six months or so?

**Vishal Gor:** As on 31st of March the net working capital was about Rs. 870 crores which included Rs. 250 crores of cash.

**Alok Dalal:** Okay thank you that is useful. Thank you so much.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Akshay from Citigroup. Mr. Akshay, please go ahead sir.

**Akshay:** Hi. You have mentioned you have gained some market shares in the US post exiting of some competitors. Do you think this is going to be sticky going forward, will this growth be sustainable?

**Pankaj Patel:** You should understand that there is a base effect as well. So you cannot say that every year we will grow by 100% but we will expect a very good growth in US. Currently I cannot provide you numbers for 2010 but we will be able to provide you by the time when we meet for the conference call in January, when we would have finalized our budget. But we believe that very handsome growth is sustainable, not the same percentage because you can understand that I cannot double the business every year.

**Akshay:** Okay. There has been a sharp increase in your other expenses. Apart from R&D is there anything else driving this cost?

**Vishal Gor:** No. R&D was the main cost driving the overall other expenses.

**Akshay:** Okay thank you. And also you had mentioned one API supply in EU, I missed the name can you just repeat sir?

**Pankaj Patel:** It's Clopidogrel.

**Akshay:** Okay thanks.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Shrivatsa from UTI Mutual Fund. Please go ahead sir.

**Shrivatsa:** In the US market sir, what will be the top 5-10 products that what would be your market share in your top 5 products sir?

**Pankaj Patel:** We can provide you this information offline. Would you please contact Mr. Vishal Gor for this purpose?

**Shrivatsa:** Okay. Sir in terms of integration with Zydus France, are we now outsourcing a large part of the requirement from our Indian unit sir?

**Pankaj Patel:** Currently about 35% of our requirement is coming from India and it is gradually increasing.

**Shrivatsa:** Sir can you give us an update on your vaccines business. You did some acceleration and you were planning some foray into anti rabies vaccine.

**Pankaj Patel:** We already have anti rabies vaccine in the market which we are supplying and we also have developed a new generation anti rabies vaccine which is undergoing currently a final stage of clinical trial. It is slated to be launched somewhere in the first quarter next financial year and we are also working on several other vaccines which we will launch in 2011 and 2012.

**Shrivatsa:** Okay and this launch is a global launch or it is only in India?

**Pankaj Patel:** It's going to be an Indian launch.

**Shrivatsa:** But I believe you had some supply agreement with WHO right?

**Pankaj Patel:** Yeah we do have approval from WHO and we have already started exporting anti rabies vaccine to few markets now and gradually our product is getting registered in different markets and moving into other markets as well wherever there is a market for the rabies vaccine.

**Shrivatsa:** Okay. And sir what has been the performances at semi regulated market sir specially Brazil and other markets for the half year and the quarter?

**Pankaj Patel:** Vishal can provide you the information.

**Vishal Gor:** In Brazil we grew by 15% for the quarter. In the emerging markets you would understand that last year we had a Simayla acquisition and Quarter 2 numbers last year included two quarter numbers of Simayla. So the growth for the quarter would not be comparable for emerging markets. For the first half i.e. April to September, the emerging markets grew by 12%.

**Ganesh Nayak:** Yeah this is Ganesh Nayak here. Let me add to it. In generic business in Brazil we have two components, one is the Nikkho, the branded promoted business which we acquired two years ago and the other is generic-generic business. Generic-generic business has grown by 95% but the Nikkho grew at 1% because we had one product where we could not supply for almost 6-7 months and that contributes to almost 14% of our sales. So if I take that out our Nikkho business also is growing at 14%.

**Shrivatsa:** Okay. Sir can you also give us an update of both your joint ventures namely the Zydus Noveltch and Zydus BSV?

**Pankaj Patel:** Zydus Noveltch is very much on its path of filing its first ANDA next year and we are also building a new facility for manufacture of the transdermal products and the plant is under construction at this moment. As far as Zydus BSV is concerned we have moved into Phase 2 trials for the novel drug delivery based products and also we have filed some ANDAs from this facility to generate additional revenues.

**Shrivatsa:** Sir you are supposed to launch one product out of the BSV venture in the current year right?

**Pankaj Patel:** That we have already launched. This is launched in Indian market. For the registrations in the international

market, we are conducting additional clinical studies.

**Shrivatsa:** Okay. And sir how much sales this product has clocked in the last six months or the quarter?

**Pankaj Patel:** I will ask Vishal to provide you that number offline.

**Shrivatsa:** Okay. And sir in Zydus Noveltch how many ANDAs you have totally filed sir?

**Pankaj Patel:** We have a plan to file about 7 ANDAs. Our first ANDA will be filed next year.

**Shrivatsa:** And these are all very complex and niche ANDAs?

**Pankaj Patel:** Yeah correct and focused on transdermal products.

**Shrivatsa:** Okay, thank you sir.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Puneet from M P Advisors. Mr. Puneet, please go ahead sir.

**Nimesh:** Yeah hi this is Nimesh, thanks for taking my question. Just wanted to understand what would be the constant currency growth in your total exports? Just trying to understand how is the Forex impacting your sales?

**Vishal Gor:** Nimesh this is Vishal. See we have different markets and in different markets we operate in different currencies. So it would be difficult to give you one number.

**Nimesh:** Any color if you can throw as to what ballpark would be the increase because of the favorable FOREX.

**Vishal Gor:** Major market is US market where we grew by about 82% and in Brazil we grew by 17%

**Nimesh:** US obviously the currency has been favorable. Brazil also the currency was in favour?

**Vishal Gor:** It was almost same.

**Nimesh:** Okay fine, thanks very much.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Arvind B from Bank of America. Please go ahead sir.

**Arvind B:** Hi thanks. Most of my questions have been answered. Thanks I will move on.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Balaji Prasad from Goldman. Mr. Prasad, please go ahead sir.

**Balaji Prasad:** Hi good afternoon gentlemen. Just had two questions, one, could you throw some details on your Novavax joint venture. What is the kind of duration around the investments and your expectations from this vaccine unit?

**Pankaj Patel:** First of all I think you are confused because we did not acquire Novavax. It is acquired by Cadila Pharmaceuticals which is another company.

**Balaji Prasad:** Okay fair enough. Secondly on the Zydus Hospira JV itself, what is the profit contribution been this quarter and how do you expect this to go forward?

**Pankaj Patel:** You can contact Mr. Vishal, he will provide this information to you offline.

**Balaji Prasad:** Okay fair enough thank you.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Gupta from Tata AIG. Mr. Gupta, please go ahead sir.

**Cheenu:** Yeah hi sir this is Cheenu from Tata AIG. Sir I would like you to comment on profitability in your Latin American and European markets?

**Pankaj Patel:** We are not providing the market specific profitability data for competitive reasons. So I would not be able to provide you that information.

**Cheenu:** Okay and sir in your R&D expenditure for this quarter, what will be the number.

**Vishal Gor:** It was 474 million.

**Cheenu:** Okay sir thank you.

**Moderator:** Thank you for your question. We have our next question from Mr. Surjit from Standard Chartered. Mr. Surjeet, please go ahead sir.

**Surjeet:** Hi good afternoon. I just need to know that what is the status of your anti rabies vaccine because I think you were in the process for last six months.

**Pankaj Patel:** The status is that we already have approvals. I responded to another question before that we already started exporting to few markets like Vietnam, Pakistan, and Venezuela and the product is getting registered in other markets and we will be starting to sell in other markets as well.

**Surjeet:** Lyssavac you got approval from WHO for tender business. So when do you see that business will ramp up to a significant level?

**Pankaj Patel:** We expect that in the next 18 months it will ramp up because as we get approvals in different individual markets, we will be selling them more and more.

**Surjeet:** And you were manufacturing presently in your Berna Biotech acquired plant in Europe?

**Pankaj Patel:** No we manufacture this in a plant in Ahmedabad where we already have a manufacturing facility. We didn't acquire any plant of Berna Biotech in Europe. We acquired Etna Biotech in Italy.

**Surjeet:** And what is your plan for that Biotech vaccine plant you have acquired?

**Pankaj Patel:** That is a research unit. This is not a manufacturing plant which basically focuses on research in vaccinology and we are working on several vaccines and as and when development will happen we will inform you about the development.

**Surjeet:** Okay. Just one more question is that what will be your present receivable base in your US business?

**Pankaj Patel:** Just now I do not have the number in front of me but we will be very happy to provide you offline. Would you please contact Mr. Vishal Gor, he will give you exact numbers.

**Surjeet:** Sure. And another thing I missed, what is your profit in Nycomed JV?

**Pankaj Patel:** It was Rs. 120 million.

**Surjeet:** And Hospira is also maintaining the same margin level?

**Pankaj Patel:** Hospira is maintaining the similar margins as it was there in the first quarter.

**Surjeet:** Okay thank you.

**Moderator:** Thank you for your question. We have our next question from Mr. Manoj from Enkay. Mr. Manoj, please go ahead sir.

**Manoj:** Good evening sir and congratulations for good set of numbers. First question is pertaining to what is the total

addressable market of this transdermal product in the US sir?

**Pankaj Patel:** Well it is too early for us to give you the numbers because as and when we file in India we will inform you the addressable market size but the product which we identified has an overall market size of about \$ 3 billion.

**Manoj:** And those parts are mainly in patent category or even there are few products which are off patent also?

**Pankaj Patel:** There are few products which are off patent and one or two are still in patent.

**Manoj:** Still in patent. Sir, just on the macro level, have you seen some kind of price stability in the U.S. market because the smaller players are going out and of late, U.S. FDA has become more stringent. This has resulted into one the vacuum in the space and probably little price stability in the market although.

**Pankaj Patel:** It is a mixed bag. We see price stability in some products and in some products still new players are coming in, so you see price erosion. Overall you can say we are able to maintain overall margins but it is mixed bag actually.

**Manoj:** Second, there was a news article in the paper about shortage of anti rabies vaccine in the Indian market. Has it played some positive impact on our vaccine sales, anti rabies vaccine sale in India?

**Pankaj Patel:** Yes, but it is too early for us to say anything.

**Manoj:** Okay, that's all from my side sir, thank you very much and wish you all the best.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Nimesh Desai from Motilal Oswal, please go ahead Mr. Desai.

**Nimesh Desai:** Yeah, good evening everybody. Just had one question, yesterday Hospira has come out with a press release on launching of generic version of Taxotere across Europe. I just wanted to know whether the Zydus Hospira JV will be manufacturing this product or this is something outside the purview of the JV.

**Pankaj Patel:** We have not yet shared product specific information on Zydus Hospira JV, so would not like to comment on it.

**Nimesh Desai:** Okay, fine. Thank you.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Surya from Reliance Money. Mr. Surya, please go ahead sir.

**Surya:** Yeah, congrats on good set of numbers and I just wanted to know what is the profitability margin for Hospira JV, is it possible to share.

**Pankaj Patel:** It is about 30% at this moment but it is too early to say exact margin because it depends upon the market price and all that, so currently you cannot take the number as a guidance because going forward, once the market stabilizes, we will know exact margins possibility.

**Surya:** Okay and what was the CAPEX that both the partners were invested in that JV sir.

**Pankaj Patel:** Approximately 80 crore Rupees.

**Surya:** 80 crores, and about the Japanese market, can you give us some indication what is your growth plan and by what time we would see that market getting some critical mass.

**Pankaj Patel:** I think Japanese market is very much on track. We are growing at a very good rate but because this base is small, the growth number is not much relevant. But we see that our market shares are improving and we are launching more products, so our portfolio is expanding and we see that in the next three years, we would have a good critical mass in Japanese market.

**Surya:** Okay and how many products are there currently and what is the product pipeline that you have for that market.

**Ganesh Nayak:** Currently we have one product which is Methyldopa which we have acquired which is the large one and then we have about 20 generic molecules which we have in-licensed.

**Surya:** Okay, so currently in the market, how many products are there?

**Ganesh Nayak:** We have about 20 products.

**Surya:** Okay fine sir, thank you. That is all from my side.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Basvaraj from Techno Group. Mr. Basvaraj, please go ahead.

**Basvaraj:** One small question about Nikkho product which you were not able to supply, so what was the actual reason, which is this product for first and second is what is the actually reason is it quality or change in market dynamics.

**Pankaj Patel:** No it is not either quality or market dynamics, we had some production constraints because of which we could not supply.

**Basvaraj:** Can you name the product sir.

**Pankaj Patel:** No I would not like to name the product.

**Basvaraj:** Okay, thank you.

**Moderator:** Thank you for your question sir. Participants are requested to press \* and 1 to ask any further questions. We have our next question from Mr. Mitul Mehta from Lucky Securities. Please go ahead sir.

**Mitul Mehta:** Yeah, good evening sir, congratulations on a great set of numbers. I have two set of questions, one is on your sale cruise and second is on the tax rate. June quarter and subsequently September quarter we have seen a very robust sales growth, are we likely to maintain this between 20% and 25% growth for the second half and second question is of course on your tax rate, when are we likely to be a full tax paying.

**Pankaj Patel:** Number one, we believe that we will be maintaining the current growth level and as far as tax rate is concerned, we will be under MAT for quite foreseeable time because some of our production is coming from Sikkim where we have a tax exemption for now eight more years. So, we will be maintaining MAT kind of a tax rate going forward as well.

**Mitul Mehta:** Okay and sir on your capital expenditure program for this year and year after that?

**Pankaj Patel:** This year, we are expecting about Rs. 200 crores of capital expenditure and may be similar number next year.

**Mitul Mehta:** Okay, thank you very much sir.

**Moderator:** Thank you for your question sir. The next question is form Ms. Fatima Khan from IRPR. Ms. Fatima, please go ahead mam.

**Fatima Khan:** Good afternoon and congratulations for a good set of numbers. I have three questions. My first question was, do you plan to expand your domestic branded formulation portfolio further this quarter or can you give us some guidance about this.

**Pankaj Patel:** Sorry, I could not understand your question.

**Fatima Khan:** Do you plan to expand your domestic branded formulation portfolio further.

**Pankaj Patel:** Yeah, we will continue to launch the new product and we will launch the products even this quarter. We have about 10 products lined up for launch this quarter and the next quarter 10 each, so we will continue launching new products and expanding products portfolio in the process.

**Fatima Khan:** Okay, do you expect your EBITDA margin to expand because it is at a very good level right now, so at what rate do you expect it to expand further?

**Pankaj Patel:** If you see our track record, we have improved our margins by about 100 basis points year-on-year and we believe that we still hope to continue doing that.

**Fatima Khan:** Okay, alright and now Wipro has launched its sugar substitute, so how what kind of marketing strategy are you planning as response to this launch?

**Ganesh Nayak:** I would not be able to spell out the marketing strategy, you will understand that for commercial reason, but we are already showing a very robust growth on our product and we have taken necessary steps to safeguard our interest. Actually more players are helping us to expand the category and we, being the leader, are able to grasp the most of that.

**Fatima Khan:** So, you would be doing some line extensions.

**Pankaj Patel:** I would not spell out that because of the commercial reason as I told you.

**Fatima Khan:** Okay, do you expect our interest and financial charges to remain stable over this year?

**Pankaj Patel:** Yeah, we expect it remain to stable this year, at the current quarter's levels.

**Fatima Khan:** Alright, that is it. Thank you.

**Moderator:** Thank you for your question. Participants, if you have a question, please press \* and 1. We have our next question from Mr. Rajesh V from ICICI Securities. Mr. Rajesh, please go ahead sir.

**Rajesh V.:** Good evening gentleman. Congrats on pretty good set of numbers. Pankaj bhai on the big picture in the last three years, Cadila has done well for doubling the revenues and profit. The profit after tax has gone up from Rs. 145 crores to Rs. 300 crores in fiscal 2009 and this first half also you have done pretty well, so are you on track to achieve the billion dollar revenue mark for March 2011?

**Pankaj Patel:** Yes, I think we see that looking at our growth, we are on our track to achieve the billion dollar mark saving of course Rupee-Dollar exchange rate not remaining at present levels and crossing Rs 50, we might have problem but otherwise we are very much on track for making that happen.

**Rajesh V.:** Okay and the U.S. also is showing tremendous traction, obviously there are as you mentioned in response to one of the query that there are less number of players which is also helping the cause, could you throw some more light, I mean, we have few other Indian Companies also who have had trouble with the FDA and because of which they are absent in the market, so what exactly is going on and do you think that the U.S. FDA risk which was there a year ago has subsided a bit or you think it is still pretty much far as they have raised the bar?

**Pankaj Patel:** I guess U.S. FDA risk will be always there because if you do not follow the standards which is required by FDA in terms of good manufacturing practices, companies can face problems and I think the customers are really worried because one after one there are almost half a dozen companies, not only Indian but one U.S. company who have had problems and as a result there is an apprehension in customers' mind and the moment some kind of issue surfaces in one company, they try to move away from that company and like to go to companies which are safer for them. That is going to be very critical for succeeding in U.S. market to maintain a good track record with FDA.

**Rajesh V:** Sure, and have you seen with this significantly strong top line growth has profitability in the U.S. business has improved significantly?

**Pankaj Patel:** Yeah, we are witnessing that because of higher sales profitability has improved. Also because of the structure, or cost do not go up so significantly. So even after R&D expenditure, U.S. is contributing positively to the bottom line.

**Rajesh V.:** Would you think that the margins would be now inline with the overall company or they would still be lower. Your EBITDA is now close to 22%.?

**Pankaj Patel:** Yeah, I think margins are in line with the overall company.

**Rajesh V:** Okay, great and wish you all the best.

**Pankaj Patel:** Thank you.

**Moderator:** Thank you for your question sir. Participants, if you have a question, please press \* and 1. We have our next question from Mr. Surjit from Standard Chartered. Mr. Surjit, please go ahead sir.

**Surjit:** Hi, thanks for taking my question again. Going by the latest development is there any plan for Nycomed to manufacture Roflumilast at your JV going forward if it gets approved?

**Pankaj Patel:** Currently, we do not have a plan but yes if something happens, then we will have discussions on that.

**Surjit:** I mean it is in the agenda to discuss going forward, if anything considered from regulatory level.

**Pankaj Patel:** Yes that is right.

**Surjit:** And you have that capacity in your JV for.

**Pankaj Patel:** Yeah, we have built up a new facility for API and this facility would have capacity to have product.

**Surjit:** Okay, another area is the Japan, though you have said certain things about that three years you were going to see some critical sales to come out of that geography. My point is that you know the next bid after U.S., do you have any aggressive plan going by in organic growth for that market?

**Pankaj Patel:** We would basically now like to grow the market organically rather inorganically but we would be looking at some brand acquisitions or something and that is where we will try to add portfolio, so some inorganic play we will do in terms of acquiring some brands but mostly it is going to be organic play.

**Surjit:** And any plan to get into hospital segment over there?

**Pankaj Patel:** No, we do not have plans currently to get into hospitals.

**Surjit:** Sir that is 51% of the total market as of now.

**Pankaj Patel:** I know that we already cover for our orals. We do visit hospitals and supply the product in the hospitals. When we talk about the hospitals we talk about injectibles and accessories which is where they are not planning to do at this moment.

**Surjit:** Is your Japanese operation profitable at operating level?

**Pankaj Patel:** It is not.

**Surjit:** Its not, ok. Thank you.

**Moderator:** Thank you for your question sir. Participants if you have a question please press "\*" and "1". We have our next question from Mr. Puneet from M P Advisors, Mr. Puneet please go ahead sir.

**Puneet:** Yeah, in this quarter you have reported royalty income of Rs. 72 Million in other operating income that will be a recurring item or just a one time?

**Pankaj Patel:** It is a recurring item.

**Puneet:** Okay, and it is regarding what?

**Pankaj Patel:** It is for our one of the product in US.

**Puneet:** Okay, and in this quarter how many products have been launched in the US market?

**Ganesh Nayak:** Two products.

**Puneet:** And next year how many you are expecting?

**Ganesh Nayak:** Next year we are expecting about six products.

**Puneet:** Okay thank you.

**Moderator:** Thank you for your question sir. We have our next question from Mr. Ranjit Kapadia from HDFC Securities. Mr. Ranjit please go ahead sir.

**Ranjit Kapadia:** Sir, I just want to know from ANDAs which are pending approval, is there any FTF for Para IV opportunity and what is the size?

**Pankaj Patel:** We have some opportunities on FTF and Para IV but currently it is too early for us to really say about it because it all depends upon when we get the license to launch it.

**Ranjit Kapadia:** Can you quantify the market size at least, for that opportunity?

**Pankaj Patel:** That is difficult for me to give you that number.

**Ranjit Kapadia:** Okay, thank you all the best sir.

**Moderator:** Thank you for your question sir. Participants are requested to press "\*" and "1" to ask any further question. We have our next question from Mr. Arvind B from Bank of America, Mr. Arvind please go ahead sir.

**Arvind B:** Hi, just a small little question on your CAPEX plan you said you have Rs. 200 crore CAPEX plan for next year, is it on a specific facility you are going to set up or most of it is maintenance CAPEX?

**Pankaj Patel:** No, these are all facility expansion and maintenance CAPEX, so we would be still adding some API capabilities, we will be adding some vaccine capabilities and some biology capabilities. As I said earlier, we would be setting up a transdermal manufacturing capability also.

**Arvind B:** And that would come on stream in like next two years also.

**Pankaj Patel:** Yeah, they will come on stream in next one or two years. Usually we like to complete our projects in less than 12 months.

**Arvind B:** But given your strong growth run rate, your current capacity is sufficient for the next year also?

**Pankaj Patel:** Current capacity is sufficient for the next year for sure because we have built up huge capabilities upfront and now what we need is to do balancing to increase capacities, so we do not see any problem but going forward we plan to build additional manufacturing capability and that is why we are looking at Rs. 200 crore capital investment also next year.

**Arvind B:** Okay, another question on your R&D side, R&D cost as the percentage of sales remain at 5%, do you expect it to grow up given the fact that your novel research pipeline is progressing, your ANDA filings would also go up. So any guidance from that front?

**Pankaj Patel:** I do not think it would increase substantially as percentage to sales, because, our revenue growth also is the robust.

**Arvind B:** Okay, and sir finally how many ANDA filling you plan over the next year?

**Pankaj Patel:** Yeah, well usually we have a target to file anything between 12 to 15 ANDA's every year and this year also we expect that we should be able to file 15 plus ANDA's.

**Arvind B:** So, coming to one final question I mean you have 45 ANDA's pending approval and you just mentioned that you expect launch of six products by next year, is there any specific reason for not launching more products?

**Pankaj Patel:** We generally file before but approval process in US is slow. Also some of the ANDAs we filed the patent may expire much later, so we might have tentative approval, but we cannot launch them. So, all put together we believe that we should be able to launch six products if FDA become faster, we can get some faster approvals, and we may launch more products but currently our visibility is around six products.

**Arvind B:** Okay, that is all from my side. Thank you so much.

**Moderator:** Thanks for question sir. Ladies and gentlemen for any further question please press "\*" and "1. Participants if you have a question please press "\*" and "1". We have our next question from Mr. Bhavin Shah from Dolat Capital, Mr. Shah please go ahead sir.

**Bhavin Shah:** Yeah, thanks again, sir just wanted to know how many products do we have in the US market currently, rightly?

**Pankaj Patel:** 27.

**Bhavin Shah:** 27 products, okay thank you so much.

**Moderator:** Thank you for your question sir. Participants if you have a question please press "\*" and "1. Participants are requested to press "\*" and "1" to ask any further questions. Participants if you have a question please press "\*" and "1. Mr. Patel there are no more questions now.

**Pankaj Patel:** Thank you for joining the conference call and have a good evening.

**Moderator:** Ladies and gentlemen, this concludes 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 and have a great evening.