

Investors/Earnings Conference Call (April 28, 2009)

Moderator: Good evening Ladies and Gentlemen. Thank you for standing by. This is Meena, the moderator, for your 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 from Cadila Healthcare Limited. At this moment all participants are in the 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 handover this call to Mr. Pankaj Patel, please go ahead sir.

Pankaj Patel:

Good evening and welcome to our post-result tele-conference for the year FY 2008-09.

In what has been one of the most challenging years for economies world over, where global downturn has proved to be a great leveler across the industries, we have maintained our track record of bettering our performance year on year. Consistency has always been the key word for us, and we have continued to meet the expectations time and again. In this difficult times also, we are well on track and confident of achieving our next goal of \$ 1 billion by 2010-11.

With this background, let me recap the highlights of the year 2008-09.

- US business posted strong performance with continuous thrust on its “Customer Focus Model” and launch of 9 new products including 3 Day One launches of Lamotrigine IR, Lamotrigine CD, and Topiramate IR.
- We registered sales of Rs. 3984 Mio. in US, up 55 % y-y and bottom-line (before allocations and after minority interest) of Rs. 832 Mio., up 192 %.
- For the fourth consecutive year Zydus has been named by IMS as one of the fastest growing U.S. generic companies.
- With buy-back of 30 % shares from other partners, Zydus Pharmaceuticals USA Inc. is now 100 % subsidiary of Cadila (thru Zydus Int’l Pvt. Ltd).
- French business has also continued robust performance, with launch of 10 new products (incl. Day One launch of Biclutamide) and strengthening of position in key products viz. Pravastatine, Omeprazole and Lansoprazole.
- We registered sales of Rs. 1980 Mio. in France, up 20 % y-y.
- Brazil business (branded and generics) registered sales of Rs. 1628 Mio., up 32 %, with launch of 4 new in-licensed products in the branded space. It registered net profit of Rs. 118 Mio. compared to Rs. 3 Mio. last year.
- 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), which will provide distinct edge to market the product internationally.
- We made strategic acquisitions in two key markets – Spain and South Africa.

In Spain, we acquired 100% stake in Laboratories Combix, which has got solid product portfolio, and range of additional products ready for launch. In FY 08-09, it posted sales of Rs. 114 Mio. We plan to increase access to the Spanish market going forward.

We acquired 70% stake in Simayla Pharmaceuticals, which is one of the fastest growing generic companies in South Africa, with highest number of new product launches. We plan to leverage strong product pipeline for South Africa built from India going forward.

- Exports to other emerging markets of Asia Pacific, Africa and Middle East (incl. Simayla) and CIS regions grew by 81 % and posted sales of Rs. 1750 Mio., maintaining our leading positions in Sri Lanka, Myanmar, Uganda and Sudan.
- In domestic formulations market, we strengthened our presence in
- Neutraceuticals market, with launch of new division “Nutriva” with addition of ~250 people in field.
- Rheumatology market, with launch of new division “Synovia” with ~ 50 strong field forces.
- We also launched a hospital focused division, “Topcare” by leveraging strengths of Diagnostic products portfolio, for which a field force of 80 executives has been created to have comprehensive coverage of major hospitals in the country.
- We became the only company in India to have a specialty team focused on COPD segment by setting up special task force of 30 people.

- We launched over 25 new products and over 30 line extensions in the domestic formulations market (“Nucoxia MR”, “Pazubid”, “EtoGesic”, and “Pantodac IT” being prominent ones). Of these, 15 were FIRST IN INDIA.
- Three brands namely “Ocid”, “Pantodac” and “Atorva” crossed mark of Rs. 500 Mio. each. With this, we now have five brands in the domestic market with sales exceeding Rs. 500 Mio. each.
 - We retained our leading positions in Cardiology and Diabetology, Gastro Intestinal, Women’s Healthcare and Respiratory areas in the participated market segment.
 - Overall, domestic formulations business posted sales of Rs. 12889 Mio, up 10 %.
 - The consumer business of Cadila Healthcare Ltd. was integrated into Carnation Nutra Analogue Ltd. upon restructuring under scheme of arrangement. The company is now renamed as Zydus Wellness Ltd.
 - The restructuring of consumer business is aimed at -
 - Leveraging strengths of both the businesses and capitalizing on the synergies of combined operations, and
 - Unlocking value lying in Consumer Business of Cadila and creating long term value for shareholders.
 - Zydus Wellness registered robust performance with growth of 27 % (on a like-to-like basis), and posted sales of Rs. 1947 Mio. and healthy bottom-line of Rs. 170 Mio. (excl. minority interest).
 - API business (other than Nycomed JV) also registered sales of Rs. 2487 Mio., up 17 %, with exports posting growth of 27 %. We introduced 7 new API products in the domestic and regulated markets.
 - With launch of 7 new products, Animal Health business posted sales of Rs. 1103 Mio., up 7 %, with healthy bottom-line of Rs. 164 Mio., up 46 %.
 - Zydus Nycomed JV posted sales of Rs. 1998 Mio., and profit of Rs. 1365 Mio. – both highest ever in the history. (50 % of which is our share).
 - Zydus Hospira JV has successfully completed inspection of EU regulatory authority, MHRA, and plans to start commercial operations from Q1 FY 09-10.
 - Our tablet & Injection facilities of Moraiya plant successfully completed the 3rd USFDA audit and Brazil - ANVISA audit without any adverse remarks.
 - Majority of domestic products have been shifted to Sikkim facility from Baddi facility, which is now going to cater to US market also.
 - Strengthening our research pipeline, we filed 6th IND application for ‘ZYT1’, a novel lipid lowering molecule with the DCGI.
 - ‘ZYT1’ also became our first IND to be filed with USFDA, and we are the only company in India which has executed total filing work from India.
 - We signed a new drug discovery and development agreement with Eli Lilly and Company, focused in the area of cardiovascular research.

This alliance seeks to increase productivity in drug discovery and development by synergizing the unique strengths of both the companies.

The collaborative research programme may continue for a span of up to six years, during which we can receive potential milestone payments of up to \$ 300 Mio. on licensing of molecules to Eli Lilly and also royalties on sales of successful compounds.

- We acquired Etna Biotech, Italy based subsidiary of Dutch biopharmaceutical co. – Crucell, NV.
- We entered into an agreement with WHO to develop next-generation biologicals to fight rabies.
- Zydus Research Centre in Ahmedabad received full accreditation from AAALAC International, (Association for Assessment and Accreditation of Laboratory Animal Care), making it only the second company in India to receive this accreditation.
- We Filed 19 more ANDAs with US FDA, including 2 ANDAs each for pulmonary and nasal products and 5 ANDAs for parenteral products, taking total to 92 ANDA filings. Also filed 14 US DMFs with US FDA, taking cumulative total to 76 DMFs.
- We received 10 more ANDA approvals from the US FDA, taking total to 43 product approvals, of which 23 products have been launched so far.
- We filed 15 additional new product dossiers for EU market, incl. 8 for Spanish market, taking cumulative number of new product dossier filings to 54. Cumulative number of site transfer applications for EU market has reached 44.
- We received 13 more new product approvals for French market, taking cumulative to 28 approvals, and received 10 more site transfer approvals, taking cumulative total to 41 approvals.

Now let me take you through broad financial numbers.

During the year 2008-09 on consolidated basis:

- Total operating income was up by 26 % y-y to Rs. 29.3 billion from Rs. 23.2 billion last year.
- Income growth was mainly driven by formulations exports which grew by 50 % on the back of sales growth of 55 % of US subsidiary, 32 % growth in Brazil business and 81 % growth in exports to emerging markets helped by the acquisition of Simayla Pharma in South Africa.
- Domestic formulations business grew by 10 %. Consumer business grew by healthy 27 %, while API exports (incl. Nycomed) also grew by 34 %.
- EBIDT was up by 32 % y-y to Rs. 6058 Mio. from Rs. 4582 Mio. last year.
- EBIDT margin (% to total operating income) was up by 1 % to 20.7 % against 19.7 % last year, mainly on account of higher realisations in exports, higher contribution from Nycomed JV, better product mix and tight cost controls.
- Operating profit before tax (excl. non-operating incomes, exceptional items and exchange rate fluctuation on forex loans) was up by 28 % y-y to Rs. 3962 Mio. from Rs. 3091 Mio. last year.
- Adverse fluctuation on conversion of forex debt (loss of Rs. 227 Mio. vs. gain of Rs. 109 Mio. last year) and expenses on restructuring of consumer business of Rs. 144 Mio. restricted PAT growth to 18 %, which was up to Rs. 3031 Mio. from Rs. 2576 Mio. last year.
- EPS, after considering the increase in share capital under scheme of arrangement for restructuring of consumer business by 10.88 Mio shares, has been at Rs. 22.20 per share vs. Rs. 20.51 last year, up 8 %.

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

Moderator: Ladies and gentleman we will now begin the question and answer session. If you have question please press * and 1 on your pushbutton phone and wait for your turn to ask the question when guided by the facilitator. If the question has been answered before your turn and you wish to withdraw your question, you may do so by pressing the # key. We have our first question from Mr. Nimesh Mehta from MP Advisors. Mr. Nimesh, please go ahead sir.

Nimesh Mehta: Yeah thanks for taking my questions. I wanted to know what is the reason for the sharp increase in the interest cost this quarter which is I think spilled over the last quarter.

Pankaj Patel: Yes I think I would ask Vishal to take that.

Mr. Vishal: Hi this is Vishal. This quarter we have complied with the Accounting Standard 16 Para 4(e) which states that if you have foreign currency loan and you have incurred loss on the translation or settlement of that loan, then amount of such loss to the tune of interest saving due to lower interest rate on such loans can be classified as interest cost. So for the entire year, loss of about Rs.20 Crores has been adjusted in the interest cost and that is why there is a net gain on exchange fluctuation side in the current quarter. Plus there has been a regrouping of interest income to comply with the Schedule VI requirements. Hence interest income, which was earlier netted off from the interest expense is now regrouped as other income and that is why you will see jump in the other income. The net adjusted interest cost after these two adjustments on like-to-like basis was Rs.196 million which was up 73% from last year and this rise is basically because of the rise in the borrowings by around Rs. 400 Crores from last year.

Nimesh Mehta: Okay. So just to be a little clear on my side, you said that there is a change in the way you account for the interest expense and now you take into consideration the loss that is arising out of, which may be notional or translation loss arising out of the foreign exchange fluctuations?

Pankaj Patel: Yes to the extent of interest saving on such loans because as you know the interest rates on such foreign exchange loans would be lower compared to rupee loans. So the exchange loss to the extent of that interest saving can be adjusted against interest cost as per Accounting Standard 16.

Nimesh Mehta: I see okay. So it can be even more than this but you had adjusted it only to the extent of the saving that is ...?

Pankaj Patel: Yes.

Nimesh Mehta: Okay. And you said that there is an increase in the borrowing, can you tell me the gross debt figure as of now and cash figure and net debt figure?

Pankaj Patel: Sure the gross debt as on 31st March 2009 was Rs.1267 Crores and the cash position was Rs.252 Crores. And net debt was Rs.1016 Crores.

Nimesh Mehta: And how much of this debt is in foreign currency as of now, out of this 1267?

Mr. Vishal: Of the total gross debt of Rs.1267 Crores, debt of about Rs.868 Crores is in foreign currency.

Nimesh Mehta: So has there been a rise in the debt just because of the foreign exchange issue?

Mr. Vishal: No, the increase is mainly to fund the acquisitions and capex programs and increased working capital requirements in tune with the increase in the business.

Nimesh Mehta: Okay. Another item I would like to know is the R&D expense that you would have incurred for the quarter and for the year?

Mr. Vishal: The R&D expenditure was Rs.595 million for the quarter and for the year it was Rs.1564 million.

Nimesh Mehta: Okay. What is the exceptional loss that we see on the income statement of Rs.222 million?

Mr. Vishal: It includes two things, one is the VRS cost of Rs. 8 Crores in our Brazil operations and another is the expenses related to restructuring of consumer business of Rs.14 Crores which is basically stamp duty.

Nimesh Mehta: Okay. One more item I would like to know is the likely CAPEX for the next year that you are likely to incur?

Pankaj Patel: We are planning for Rs. 150 Crores.

Nimesh Mehta: Okay. Another question on the business side, you have mentioned a lot about the domestic formulations business registering you know once again among the highest growing company in IMS, but first of all are the numbers that you have mentioned are net of excise or gross of excise?

Mr. Vishal: The numbers which we have mentioned are gross of excise. Rs. 12889 million is gross of excise.

Nimesh Mehta: And any reason why is it still pretty much or slightly below the average market growth that we are seeing?

Pankaj Patel: Nimesh I will explain, we have a 10% growth on the domestic formulation business, and it has an impact of 2.5% because of the excise duty changes. If you take like-to-like basis then our growth will be about 12.5%.

Nimesh Mehta: Okay fine. And you expect the same kind of growth next year?

Pankaj Patel: We would be able to improve further on that, because you know last year 1st Quarter our growth was very low. That is not going to be there so this year we expect the growth to be even better than this. So it should be better than 12.5%.

Nimesh Mehta: Okay and you basically expect to outpace the market growth right?

Pankaj Patel: Yes.

Nimesh Mehta: That is the minimum one can expect?

Pankaj Patel: Yeah correct.

Nimesh Mehta: Finally any tax guidance that you can give?

Mr. Vishal: Consolidated tax rate should be around 16% to 17%.

Nimesh Mehta: Okay. Is there any substantial increase in the working capital or normally the same if anything noteworthy?

Pankaj Patel: Will grow with the business, but not significant.

Nimesh Mehta: Okay, thanks a lot.

Moderator: Thank you for your questions Mr. Nimesh. We have our next question from Mr. Manoj from Emkay Global. Please go ahead sir.

Manoj: Yeah this is Manoj from Emkay Global. My first question is in terms of the employee cost, on Q-on-Q basis the absolute number has also come down from Rs. 961 million to Rs. 750 million, can you put some light on that?

Mr. Vishal : Can you please repeat the question?

Manoj: Yeah if you see on Q-on-Q basis the employee cost has come down from Rs. 961 million which you charged in Q3FY2009 to Rs. 750 million in Q42009?

Pankaj Patel: Yeah the basic reason is as I said the VRS cost of Brazil operation which was earlier grouped with personnel cost has been now taken as an exceptional item.

Manoj: So how much was that?

Pankaj Patel: Rs.79 million.

Manoj: Okay. And second thing if I talk about raw material cost I think again on Q-on-Q basis it has gone up or even on YOY basis it has gone up almost by a 120 basis points even despite like you know they are talking about softening of raw material and crude oil prices and all those things?

Pankaj Patel: There have been certain write-offs which were done during the quarter just making sure that any short expiry material and non moving inventories were written off and as a result for the quarter you see higher material cost but it is a one off kind of a thing.

Manoj: Okay so going forward you can say that like may be 33 to 33.5 % kind of?

Pankaj Patel: Yeah we will maintain that kind of a material cost.

Manoj: Fine. Sir another question is on the deal which you have with Eli Lilly on R&D front whether the targets have already been given by Eli Lilly or the lead has already been given by Eli Lilly or will be identified by you?

Pankaj Patel: No, the target was basically a target on which we were already working so based on the progress we have made they have signed this agreement and we have to reach certain milestones to start getting the money. So work was already on and with this collaboration the work is going to actually go faster.

Manoj: Okay. And sir like is there any upfront milestone payment which you received because of this deal?

Pankaj Patel: No there is no upfront milestone payment, the milestone payment will start as and when we reach certain stages.

Manoj: And is it going to start from Phase I onwards or maybe even earlier like?

Pankaj Patel: It is to start earlier than Phase I.

Manoj: And higher milestone could be once you reach maybe at the higher stages and all?

Pankaj Patel: Obviously the milestones would really start once we go into clinical phase in the real terms.

Manoj: Okay. And sir like in terms of marketing of those products is there any specific rights of Cadila to market them in India or other similar kind of markets or the whole marketing rights will stay with the Eli Lilly only?

Pankaj Patel: We would have rights in certain markets but most of the markets will be with Eli Lilly.

Manoj: Eli Lilly only, fine. Sir can you give us some color on your approval with WHO on Rabies vaccine as to how potential this market would be and what kind of revenue estimate you are talking about from this vaccine in particular?

Pankaj Patel: After the approval, we have already started getting some businesses, but WHO itself has basically now taken a trial consignment, currently they are in the process of penetrating the cold chain system which we adopt from India to supply to different market. Once that evaluation report is there then we will have a meeting with WHO and we would have a clear guidance on what kind of volumes they are going to look forward. So hopefully we should have exact idea in next 3 to 4 months about the potential of this approval.

Manoj: And sir what could be like maybe the total market size of this vaccine?

Pankaj Patel: Well potential market size is quite large because globally this market would be something like Rs.500 Crores. And again it depends upon different market at different prices, but currently for us it would be difficult to say exactly what kind of market share we would be expecting out of it. We should be able to provide you that once we have a specific discussion with WHO.

Manoj: Okay. And sir like how this vaccine is better than Rabipur or how are you scored over Rabipur as such?

Pankaj Patel: Well it is a highly purified vaccine so that is where the advantage this vaccine has. And you know any supply to WHO requires an accreditation by WHO in terms of the product quality and quality systems. This is basically done by WHO itself where the inspector came from Europe. Three inspectors have visited our facility twice.

Manoj: Fair enough. Sir as on 31st March, 2009, how many forward contracts which we have outstanding or like everything has been materialized and taken to account by this year end?

Mr. Vishal: The total forward contracts of about \$72 million were outstanding as of March 09.

Manoj: And at what rate sir?

Mr. Vishal: At an average rate of about Rs 45.

Manoj: Fair enough. Okay and just lastly, I think probably we have missed out, about your Nycomed JV sales and profit can you repeat this please?

Mr. Vishal: The sales for the entire year was Rs.999 million and profit was Rs.682 million, wherein our share is of 50%.

Manoj: Thank you very much, that is all from my side.

Moderator: Thank you for your questions sir. We have our next question from Mr. Kirit Mehta. Mr. Kirit please go ahead sir.

Kirit Mehta: Yeah hi, sir can you give an update on Hospira JV? And what do you think would be the revenue from the Altana JV FY2010? So first the Hospira and then the Altana, thank you.

Pankaj Patel: The Hospira JV is going to start commercial production this quarter. We would issue exact number as the budget would be finalized very soon. And you may get in touch with Vishal to get the exact numbers. As regards the Altana, next year numbers are concerned, we expect our part of the sales to be around Rs. 60 Crores and profit of Rs. 35 Crores. However, we see that the trend seems to be positive so we believe that actual number could be higher than this, but as per the budget on conservative basis the top-line of 50% of Zydus will be Rs. 60 Crores and profit will be Rs. 35 Crores.

Kirit Mehta: Sir two questions on the estimate for Altana for FY2010. Sir the sales expectation is Rs. 60 Crores and profit is Rs. 35 Crores so that is on YOY decline in the EBITDA margin or the PBIT margin for business, so is it that we will be supplying to someone else other than Nycomed or ...?

Pankaj Patel: No we are going to supply to only Nycomed but we expect some of the expenditures happening because of the new plant that has been under construction. And as a result the number looks lower.

Kirit Mehta: Okay. And on this same thing, once the product goes off patent, is there an opportunity for us to sell it to

other guys who would enter the market or is it only an exclusive thing with Nycomed?

Pankaj Patel: We should be able to increase the sales to generic players after the product becomes generic. And that is the reason why we are building the API plant as well where we plan to make also the Pantoprazole API.

Kirit Mehta: Will that be Europe and US?

Pankaj Patel: Yeah Europe and US both.

Kirit Mehta: And sir if you could just tell me on Hospira how many products you expect to sell in, I mean ...?

Pankaj Patel: Yeah this year we expect to sell three products and the next year the product will go up to six.

Kirit Mehta: And any additional CAPEX expected in FY2010 for this or ...?

Pankaj Patel: No we do not expect additional CAPEX in the joint venture.

Kirit Mehta: Thank you so much.

Moderator: Thank you for your questions sir. We have our next question from Mr. Krishna Kiran from Capital Market. Please go ahead sir.

Krishna Kiran: Hi sir, congrats on a good set of numbers. Sir my question is related to Zydus Wellness, sir what you are expecting on top-line for Zydus Wellness FY2010?

Pankaj Patel: We have a policy of not to issue guidelines so as a result we are unable to give guidelines but we believe that the business is growing well and we should be able to continue doing well, but we are not issuing guidelines as company has a policy. So I would not be able to give you exact numbers.

Krishna Kiran: Okay. Sir what would be the CAPEX for Zydus Wellness?

Pankaj Patel: We expect CAPEX of about Rs.12 Crores in Zydus Wellness. The idea is to basically setup a plant in the tax free zone to reduce the tax burden. So this year we would be setting up plant from which the benefit will be available from next year onwards.

Krishna Kiran: Sir any other new brand building taking place?

Pankaj Patel: Yeah you will see that as we launch the products, currently we are unable to give you guidance because of commercial reasons, but you will see us creating newer brands during the year.

Krishna Kiran: Like how many new brands?

Pankaj Patel: One more brand and also there are number of brand extensions which will happen.

Krishna Kiran: Okay. Sir any other M&A looking in Zydus Wellness?

Pankaj Patel: We are always opportunistic as a group to look at M&A so nothing specifically being done but we will be always open to look opportunistically at acquisition to grow the business.

Krishna Kiran: Okay sir, I will be back in queue, thank you.

Moderator: Thank you for your questions sir. We have our next question from Mr. Sushant from Angel Broking. Please go ahead sir.

Mr. Sushant: Yeah I just missed out on the R&D number, R&D cost for the full year?

Pankaj Patel: It was Rs.1564 million.

Mr. Sushant: And sir on your Nycomed JV what was the contribution I also just missed on that number for FY2009?

Pankaj Patel: Profit was Rs.682 million.

Mr. Sushant: Rs. 682 million for the JVs for the 50% share ?

Pankaj Patel: Yes. 50% share.

Mr. Sushant: Okay sir thanks.

Moderator: Thank you for your question Mr. Sushant. We have our next question from Mr. Nimesh Mehta from MP Advisors, please go ahead sir. Mr. Nimesh, please go ahead with your questions sir.

Nimesh Mehta: Yeah, thanks for taking my question once again. I just wanted the breakup related to the sales and profitability of France, US, and Brazil?

Pankaj Patel: I think Nimesh I would request Vishal to provide you that offline, the data.

Nimesh Mehta: Okay not an issue. And just to make sure that I heard it correctly, you expect the Nycomed JV profitability of Rs.350 million next year, right for your part?

Pankaj Patel: Correct for our part.

Nimesh Mehta: Okay thanks a lot.

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

Mr. Arvind: Yes, just a brief color I wanted to have on the US markets in terms of your strong growth trajectory and what is your outlook for the future in terms of the number of filings you will do and the quality of filings?

Pankaj Patel: We expect to file approximately 18 to 20 filings for the year. And this will be a basket of filings including orals, injectibles and nasal products. And we expect out of that something like close to 50% to 60% would be either difficult to make or less competitive products.

Mr. Arvind: Okay. And as regard to your base business, do you see severe price erosion or normal 10% price erosion given the fact that many of your products would have limited competition on the base business do you see much of price erosion?

Pankaj Patel: Of late we are seeing not much of a pressure of price erosions on the current basket, so last quarter if you ask me specifically we did not see much of pressure due to price erosion but it is too early for us to comment whether it is a reversal of trend or not.

Mr. Arvind: And among your fillings or the pipeline, would you like to give any color on any Para IV if you have?

Pankaj Patel: No we would not like to give you any color on that.

Mr. Arvind: Okay, thanks.

Moderator: Thank you for your questions Arvind. We have our next question from Ms Rohita from Enam Securities, please go ahead sir.

Rohita Sharma: Hi Rohita here. Sir just a question on the Hospira JV you had earlier said that you expect that the production to start around April and now as you said that it will start some time ahead so any particular reason for that?

Pankaj Patel: The due date is 1st of May.

Rohita Sharma: Okay fine. And sir could you please repeat the sales that you have recorded for the full year in ROW markets, Brazil and France?

Pankaj Patel: Yeah I would request Vishal to give you the sales numbers.

Mr. Vishal: France was Rs.1980 million.

Rohita Sharma: Okay Brazil ?

Mr. Vishal: Brazil operations reported Rs.1628 million.

Rohita Sharma: And what was the number for FY2008?

Mr. Vishal: Last year it was Rs.1230 million.

Rohita Sharma: Okay and ROW markets?

Mr. Vishal: ROW total sales was Rs.1750 million including Simayla.

Rohita Sharma: And Japan?

Mr. Vishal: Japan was Rs. 290 millions.

Rohita Sharma: And can I have the number for 2008 for ROW and Japan?

Pankaj Patel: Can I suggest Vishal will give you offline these numbers ?

Rohita Sharma: Okay fine.

Pankaj Patel: I will ask him to give you these numbers offline.

Moderator: Ms. Rohita, thank you for your questions ma'am. We have our next question from Mr. Akshay from Citi Group, please go ahead with your question sir.

Mr. Akshay: Yeah hi, can I have an idea of your repayment schedule for your debts for the next year?

Pankaj Patel: I think we would have to give you offline only.

Pankaj Patel: We can provide you only offline, I do not have the data in front of me, so we would provide you that information, Vishal will get in touch with you.

Mr. Akshay: Okay.

Ganesh Naik: You are from Citibank, right ?

Mr. Akshay: Yeah exactly and another question on your interest cost, I did not understand exactly what you have done, you have basically ...

Pankaj Patel: As per Accounting Standard 16 Para 4(e), the forex loss to the tune of interest saving can be adjusted in interest cost. So what happens is that, as you know, in Indian market, your interest rate is say x-percentage on Rupee loan and on the foreign currency loans the interest is of course lower so there is a saving in interest cost. Against that there is mark-to-market loss of because of the Rupee being depreciated against foreign currency. So that loss under the AS16 Para 4(e) is regarded as part of interest cost. So this Rs.20 Crores for the quarter has been considered as interest cost which is actually a foreign currency fluctuation loss.

Mr. Akshay: So your actual interest cost would have been around Rs 240 million?

Mr. Vishal: Yeah correct, you are right. Rs. 238 million to be precise and Rs. 202 million was the foreign currency fluctuation loss.

Mr. Akshay: Okay, so your actual foreign currency loss was about Rs. 73 million..?.

Mr. Vishal: Yes correct you are right.

Mr. Akshay: Okay can I have the same figures for the full year?

Mr. Vishal: Full year is the same number, see this adjustment pertain to the entire year, but this was done in the current quarter only.

Mr. Akshay: Okay and your exceptional items are for VRS and restructuring cost nothing else?

Pankaj Patel: Yes nothing else.

Mr. Akshay: Okay thanks.

Moderator: Thank you for your question sir. We have our next question from Mr. Nimesh Desai from Motilal Oswal.

Nimesh Desai: Good evening everybody, just two questions, you indicated about some potential fillings of low competition or difficult to manufacture products in the US, can you broadly give us a color on what therapeutic segments you are talking about here?

Pankaj Patel: Generally in generics you know there is no therapeutic segments, they are basically either tablets, capsules or injectibles and something like that, so as we see they are difficult to make both in the area of nasal and oral which we are going to file for the ANDA.

Nimesh Desai: Okay so, I mean is it fair to assume that this is more related to delivery systems...?

Pankaj Patel: Correct, yes absolutely right, these are more related to delivery systems related products.

Nimesh Desai: Okay.

Pankaj Patel: See we have now over 90 products filed for US market, which is quite a good basket. Our focus now is more towards developing products which are more difficult. Such individual product can get us much better top-line and bottom-line opportunities in the process. So going forward our quality of sales and quality of margins can further improve.

Nimesh Desai: Okay but just to understand this further, these products would be sold as generics only or there is a strategy of branding them?

Pankaj Patel: No these are generics, we have not started any branded filing yet.

Nimesh Desai: Okay, okay. And I wanted to understand why is the Nycomed revenue and profit number going down for FY2010?

Pankaj Patel: See last year also we have given you a guidance and we told you that because of patent expiry, we expect lower sales. For the next year also, on the same grounds, we are giving you the numbers, which are based on the current estimates which we have for the calendar year 2009. So our year has already started in the month of January actually. First quarter we have actually done much better than the budget, but however, our annual budget is what I have stated earlier, so if I were to give you number, I would only give you number based on that, that is why I mentioned that we expect the number to be better, but my budget is this, so I do not want to give you a guidance which is very optimistic. We would like to be conservative in so far as estimates for Nycomed JV is concerned considering patent expiry.

Nimesh Desai: Okay and this budget is post your consultation with your partner, correct?

Pankaj Patel: Of course yes.

Nimesh Desai: Okay fine. And the last question was on this change in accounting policy related to AS11, could you just briefly tell us what you have done because it seems that you, I mean profits to the extent of Rs. 9.5 Crores are boosted because of this policy and that thing you would have moved into asset side, is that correct?

Pankaj Patel: Yeah I will explain that. We have opted for the accounting treatment of forex losses as per the recent

notification issued by the Govt on AS 11. Earlier we did not provide any gain or loss arising on mark-to-market of forex loans covered under balance sheet hedge options. With the revised accounting treatment for forex losses being notified by the Govt., we have decided to be more conservative and provide for loss on mark-to-market of forex loans covered under balance sheet hedge options also.

Accordingly, we have amortised a portion of forex gain / loss arising on mark-to-market of forex monetary items (loans and forward covers) in current year, and carried forward the remaining portion to next years for further amortisation. The impact of this change on current year's profit, net of tax is Rs. 95 Mio., that is, due to this change, the profit for the year is higher by Rs. 95 Mio.

Nimesh Desai: Okay so but then there would be a positive impact on the P&L in the 4th Quarter to the extent of Rs 9.5 Crores right?

Pankaj Patel: Correct, that is true, that is what we have even given in the notes.

Nimesh Desai: Okay.

Moderator: Thank you for your questions sir. We have our next question from Mr. Rajesh Vora from ICICI Securities. Please go ahead sir.

Rajesh Vora: Good evening gentleman, Mr. Patel if you could give a little bit more insight on the US business which has grown pretty strongly in FY2009 in terms of what are the key growth drivers and going forward how do you see the business panning out and the profitability?

Pankaj Patel: I think our success in US is mainly because of the kind of products which we have selected and filed, also number of Day One launches which we are able to achieve and also the great service level focus which company has. So basically our track record with our customers is 99% plus in terms of providing on-time deliveries of products. And as a result we have been able to grow the business significantly and also improve margins. So what we see clearly going forward also is that our focus on customer and basically making sure what customer needs is delivered on time, should allow us to continue growing at a good rate. And we expect even the current year the numbers should be good and we expect sales of \$ 100 million plus in US. And last year we overshot our target by about 10% so we should not be surprised that this year also we should be able to overshoot the budget. 1st Quarter has been 10% over the budget and we expect that same thing will continue for the next quarter.

Rajesh Vora: Very good, so when you say \$100 million you are referring to your Zydus Inc. calendar year number?

Pankaj Patel: Correct.

Rajesh Vora: Okay so what was the corresponding number for calendar 2008?

Pankaj Patel: \$ 78 million.

Rajesh Vora: Okay and you expect to surpass the three digit number?

Pankaj Patel: Right.

Rajesh Vora: Okay and in terms of the USFDA issues that has been coming up with few Indian companies and that being big suspicion on the slowing approval, so if you could throw some light in terms of your general sense on the whole issue?

Pankaj Patel: Yeah I think there are couple of things I want to share with you here. First is as far as our company is concerned we have a great focus on the Quality Systems and Quality Assurance. And just to give you impression that our last inspection happened in the month of February which was a 3rd inspection by US FDA of our Ahmedabad plant and we did not receive any comment or FD 483.

Rajesh Vora: Very good.

Pankaj Patel: And this is consecutively for the second time the US FDA came in and they did not issue any FD 483. We are happy about it; however, we are not complacent about it because the quality is an ever growing field and one needs to be always aware that you have to improve further. I believe very strongly that it is the top management's responsibility in any organization to ensure that quality systems are fully adhered to and the top management has to actually spend time on this. So if you see the new ICH Q10 Guidelines now it clearly defines that the top management is responsible for quality and whenever there is inspection the top management should be meeting with the inspectors to explain the quality systems and what they are doing in terms of improving quality. So I think going forward this is going to become a kind of a rule of the game. With respect to approvals in US, the process has slowed down. So we calculated our average approval time for the last year which was coming to around 21 months. Of course we had some approvals in less than one year and also we had approvals which took more than 2 years but average was about 21 months. And going forward we expect that this would continue till there is a resolution to this issue around user fee which is being discussed and debated between Generic Pharmaceutical Association and US FDA wherein they expect the fee to be charged for ANDA filing, the association currently is negotiating that where they are willing to pay the fee but in the process they are demanding certain deliverables in terms of timely approvals etc. So this is being debated with US FDA now. And in fact our CEO of US company is actually a co-chair person for the negotiating teams from Generic Pharmaceutical Association on this. So going forward things may change, if ultimately the solution is found between US FDA and the Generic Pharmaceutical Association as to how to speed up this process.

Rajesh Vora: And do you think Heparin related issue is no more the key reason behind the slowness?

Pankaj Patel: Not really that is not the real issue. Issue is that FDA is busy with too many things. If you visit FDA website, you would come to know that they have lot of issues with food for example happening. You might have read Pistachio has some salmonella which recently was a big issue. The whole resources of the FDA go into these kind of issues and then everything gets slowed down in the process because then this becomes a crisis management and that whatever resources are available in FDA get focused on these issues so the other things get delayed.

Rajesh Vora: Just a last point on the profitability on the US business with the sales sort of ramping up a quite aggressively, has the margin improved in the business?

Pankaj Patel: Yes margins have improved because of the size and scale and also the quality of new launches which we have made. And I think market prices as I was mentioning before are now stabilizing. Of course it is only one quarter so it is too early to conclude, but I think we see going forward margins to be good for the current.

Rajesh Vora: Okay thank you and all the best.

Pankaj Patel: Thank you.

Moderator: Thank you for your questions sir. We have our next question from Mr. Rahul Sharma. Mr. Rahul Sharma please go ahead sir.

Rahul Sharma: Yeah. Vishal if you could send me the sales breakup on the consumer and the export formulations business.

Mr. Vishal: Sure we will do that.

Rahul Sharma: Also wanted clarity on other incomes and income from operations, both have gone up quite dramatically so could you just take me through that?

Mr. Vishal: You are asking for the quarter or for the entire year.

Rahul Sharma: Quarter and for the year.

Mr. Vishal: I will give you the breakup of operating income and other income

Rahul Sharma: Okay you will give it to me offline?

Mr. Vishal: Yeah.

Moderator: Thank you for your question sir. We have our next question from Mr. Girish from JM Financials. Please go ahead sir.

Mr. Girish: Sir I just wanted to check on the 4th Quarter France business, is it right has it declined sequentially or that the calculation is wrong?

Pankaj Patel: Yeah year-on-year if you take there is no decline but if you say sequentially, then yes there is decline for the quarter, but it is a character of the market where usually the sales picks up in the Oct-Dec quarter and the Jan-Mar is always low.

Mr. Girish: Right, but I am getting like Rs. 33 Crores for the 4th Quarter in France, is that right?

Pankaj Patel: Yes correct.

Mr. Girish: That is like half of 3rd Quarter, isn't it?

Ganesh Naik: Girish, this is Ganesh Naik here.

Mr. Girish: Hi.

Ganesh Naik: See what has happened in France is that in the month of January the government has brought in the new legislation which says that any sale which takes place, the payment has to be made from the buyer to the seller within 60 days. All our wholesalers who were earlier paying in 90 days now by way of the law have to pay within 60 days. So they have obviously drastically reduced their inventories.

Mr. Girish: Okay.

Ganesh Naik: So that is why the January, February, March months got affected. And in fact from April onwards it seems well from the latest figures which have just come in. So in the month of April we are back on track.

Mr. Girish: Right okay and what about the US business, has that increased to like 150 odd Crores for the 4th Quarter?

Mr. Vishal: 4th Quarter the sales was Rs. 130 Crores.

Mr. Girish: Okay 130 and so that is almost very close to your full year kind of guidance, isn't it?

Ganesh Naik: No, no Rs.130 Crores for the quarter is about \$30 million, our annual is over \$100 million what Pankaj Bhai just mentioned.

Mr. Girish: Right okay.

Pankaj Patel: It is better than the average. Run rate is faster, that is why I mentioned that though we have target of \$100 million we could do better.

Mr. Girish: Right because you are already doing more than that in that

Pankaj Patel: Yes correct, exactly you are right.

Mr. Girish: Okay and sir as you look at the next one year I mean US you know in terms of the launches that you have planned, what is the feel that you can give us in terms of the nature of products that you expect to get approvals for, as on like you mentioned that 50% of the filings will be difficult to make, but what launches are the next 24 months in the US? Because we are seeing the significant ramp up in the US business.

Pankaj Patel: See initially our filings were like more back-fill products, easy and quick to file to fill the basket, and then we started improving the hurdle level gradually. So we see as we move forward we have lot of Day One launches possibilities and we have lot of the products which are difficult to make products and there is a limited competition in the

process. So going forward we expect to do well. And first time we are seeing that US customers are actually calling up and asking for materials, which was not the case maybe one year before. So we expect to do well in the US market even for next 24 months, considering the visibilities what we have.

Mr. Girish: Okay and then on the domestic business you had at the beginning of the year expanded sales force by 350 or 400 people right?

Pankaj Patel: Correct.

Mr. Girish: And then now we have added additional 380 people is that right?

Pankaj Patel: For this year?

Mr. Girish: No I mean you said 250 in your opening remarks you talked ...

Ganesh Naik: No that was during the whole year, which were already included in that 350 people added in the beginning of the year.

Mr. Girish: Okay so the total number added is about 400?

Ganesh Naik: Correct.

Mr. Girish: So but I think initially one was expecting slightly higher growth in the domestic business. Now if you look at the 4th Quarter it is again in single digit. Now I understand there is this 2% excise duty but even then it is just barely crosses 10%?

Ganesh Naik: See Girish, Ganesh here. I mean because you have been with us tracking our business for the last two years and you would have observed that you know our growth rates was of 4% to 5% lower than what the market was growing. And we had some changes which we had incorporated. Now for the first time we are in terms of our growth the same as the market, the market has grown at 10.2% and we have grown at almost the same rate. So now going forward, with 3 or 4 businesses of ours like the task force in respiratory, taskforce of "Synovia" in rheumatology and "Nutriva" in the neutraceuticals which we started last year now have stabilized. And this year we are expecting growth to be better than the market growth.

Mr. Girish: Okay.

Ganesh Naik: And also in terms of launches because you see we had launched about some 60 products last year across all our 14 divisions. And these products were in different months of the year, so we expect these products to really ramp up in this year.

Mr. Girish: Okay and on the foreign exchange gain, you have got a exchange gain of some Rs. 12 odd Crores in the 4th Quarter, is that because of some reversal on AS11 or is that, also because there is some gain on other accounts?

Mr. Vishal: No that is mainly due to two things, one is the regrouping of interest cost and exchange loss. As I said earlier, as per AS16 you can adjust the forex loss to the extent of interest saving to interest cost from the such forex loss. So that entire year's impact has gone in the 4th Quarter, which is about Rs.20 Crores.

Mr. Girish: Right.

Mr. Vishal: And part of that is also because of the carry forward of the loss as per AS11.

Mr. Girish: So Rs. 12.9 Crores of gain that you have, does that kind of capture any of the gain on these translation of let say foreign exchange monetary assets...?

Pankaj Patel: On a net basis there was a loss actually.

Mr. Girish: Okay but you know the Rupee has depreciated so ...?

Pankaj Patel: See these Rs. 20 Crores is grouped in interest. 20 minus this gain of 13, so we actually had loss about Rs. 7 Crores on foreign currency borrowings.

Mr. Girish: Okay.

Pankaj Patel: Because it is grouped in interest so you are not seeing that loss.

Mr. Girish: Sure, okay thank you.

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

Nimesh Desai: Yeah just one follow-up question, in your opening remarks it was mentioned that your target is to reach a billion dollar revenues by FY2011, is that correct?

Pankaj Patel: Yes.

Nimesh Desai: So from current levels to one billion over next two years you are talking of a very-very strong top-line growth.

Pankaj Patel: That is true.

Nimesh Desai: What I mean briefly can you tell us which areas you would expect this kind of a strong growth because you will have a domestic formulation business which will not grow at such a huge pace. And secondly whether any potential acquisitions have been built into this number?

Pankaj Patel: First of all there is no acquisition built in this number, so we are looking at all this on the current businesses. We believe that international business will continue to grow at fast pace so that is what is going to be the first advantage which will basically allow us to grow faster. We also expect the Hospira JV to start contributing revenues and that would basically allow us to grow further. Our API should do better this year because of certain advantage we have on certain products. And that would allow us to grow faster. And the Nycomed JV for other APIs which will start next year will also contribute positively to the top-line numbers. We expect the domestic market also to grow better than what we have grown last year.

Nimesh Desai: Yeah but it will be still less than the 31% CAGR.

Pankaj Patel: I certainly agree with you but that 31% CAGR in domestic market will not be possible. But it will grow better than what it was last year. So last year if we have grown overall at 29% with the domestic market is doing well, the Hospira revenue kicking in further, we expect that our growth will be meeting the requirements. See this billion number is an ever moving number because exchange rate is changing everyday. When we decided the billion number the exchange rate was around 38 to 39 and we had assumed at Rs.40 and done it, but currently the reality is 50 and we are still confident that at Rs.50 we should be able to touch the number.

Nimesh Desai: That is resulting in Rs. 5000 Crores revenues top-line.

Pankaj Patel: Yeah it is true.

Nimesh Desai: Okay you are confident of achieving that?

Pankaj Patel: Yes.

Nimesh Desai: Okay, thank you very much.

Pankaj Patel: Thank you.

Moderator: Thank you for your questions sir. We have our next question from Mr. Rohita from Enam Securities. Please go ahead ma'am.

Rohita Sharma: Sir could you just tell us what was the CAPEX that was done in FY2009?

Mr. Vishal: It was for close to Rs. 215 Crores.

Rohita Sharma: Okay sir, thank you.

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

Bhavin Shah: Good evening everyone and congrats on a good set of numbers. Sir I just wanted to have an update on your ongoing investments in R&D and what position are you talking there with, like to various deals that you are signing?

Pankaj Patel: See as a part of our goal of achieving a billion dollar we also want to achieve a healthy and a robust product pipeline by 2010-11 and our goal would be that we should have at least 10 active R&D programs in clinical research by 2011. And we are very much on path. We expect to file additional INDs this year and next year to move forward those products into clinical phase. The deals which we have signed with some of the partners should move to the next phase that is what our expectations are, and the progress is satisfactory. I am personally devoting a lot of time in all these research efforts and I can confidently say that we are on track. R&D of course is a very risky area so nothing for sure can be said till we reach a particular milestone, but we are very bullish about our R&D activities.

Bhavin Shah: Okay sir, wish you all the best, thank you.

Pankaj Patel: Thank you.

Moderator: Thank you for your questions sir. We have our next question from Mr. Nimesh Mehta from MP Advisors. Please go ahead sir.

Nimesh Mehta: Yeah just a quick question on what would be your foreign exchange hedging policy for FY2010?

Mr. Vishal: As I said earlier we have \$72 million worth of forward covers which are outstanding as on 31st March of which about \$58 millions are for 2009-10.

Nimesh Mehta: \$58 million from 2009-10 and rest would be kept open.

Mr. Vishal: Yeah the rest exports would be kept open.

Nimesh Mehta: Okay. What was the average rate at which you have booked the receivables for this FY2009?

Mr. Vishal: About Rs. 45.5.

Nimesh Mehta: Rs. 45.5, okay thanks a lot.

Moderator: Thank you for your question Mr. Nimesh. Ladies and gentleman if you have any questions please press * and 1 now. We have our next question from Mr. Manoj from Emkay Global.

Mr. Manoj: Yeah Vishal like where we have booked our actual realized FOREX loss or gain in our statement?

Mr. Vishal: Sorry.

Mr. Manoj: Where we have booked our actual realized loss or gain in forward contract?

Mr. Vishal: It is included in the general expenses.

Mr. Manoj: And how much it was for the quarter?

Mr. Vishal: For the year it was Rs.21 Crores total including the mark-to-market of derivatives and other realized and unrealized on the receivables and payables. For this quarter it was Rs.18 million.

Mr. Manoj: 18 million, okay thank you.

Moderator: Thank you for your question sir. Ladies and gentleman if you have any questions please press * and 1 now. Ladies and gentleman if you have any questions please press * and 1 now. As there are no more questions I would like to handover this call to Mr. Pankaj Patel, please go ahead sir.

Pankaj Patel: Thank you very much for joining this conference call and have a good evening.

Moderator: Ladies and gentleman this concludes your conference call for today. We thank you for your participation and for using TATA Indicom Conference Call Service. You may please disconnect your lines now, thank you and have a great day.