

## **Investors/Earnings Conference Call (July 31, 2007)**

**Moderator:** Good evening ladies and gentlemen. Thank you for standing by. This is Nilofar, the moderator, for your conference call today. We welcome you to the conference call of Zydus Cadila. We welcome we have with us Mr. Pankaj Patel Chairman and Managing Director from Zydus Cadila. At this moment all participants are in a listen only mode. Later we will conduct the 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 and welcome to our post-result tele-conference for the first quarter of 2007-08.

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

### **During Q1 07-08 on consolidated basis:**

- Total operating income was up by 28.4% y-y to Rs. 5722 Mio. from Rs. 4458 Mio. last year.
- Income growth was mainly driven by formulations exports which grew by 70% on the back of sales growth of 122% of US subsidiary, 134% growth in generics business of French Subsidiary, healthy 18% growth in domestic branded formulations and 43% growth in own API exports.
- PBIDT was up by 24.2% y-y to Rs. 1115 Mio. from Rs. 898 Mio.
- PBIDT margin (% to total income) was down by 0.7% to 19.4% against 20.1% last year, mainly due to loss of gross margins by over 2% on account of unfavourable foreign exchange rate. The impact, however, was partly compensated by tight cost controls.
- Foreign currency debt proved as natural hedge against adverse exchange rate fluctuations, and translation gain of Rs. 91 Mio. (vs. loss of Rs. 13 Mio.) partly compensated reduction in PBIDT margins.
- PAT was up by 26.5% y-y to Rs. 739 Mio. from Rs. 584 Mio last year.
- In line, EPS was up 26.5% y-y to Rs. 5.88 from Rs. 4.65 last year.

### **During the quarter,**

- We launched Peroxetine in the US market, which along with growth in other products fuelled sales growth of 122% (in \$ terms, growth was 145%).
- French business also shown strong performance, with sales of Rs. 337 Mio., up 50% y-y (54% in €terms), even after sell off of branded business. Generics business posted growth of 136% y-y.

### **FOR THE FIRST TIME, FRENCH BUSINESS POSTED OPERATING PROFIT OF €85K DURING THE QUARTER.**

- We received 5 more ANDA approvals from the US FDA, taking total to 27 product approvals. Our cumulative US ANDA filing now stands at 62, of which 35 are now pending approval.
- We filed 4 dossiers for new products for French market, taking cumulative filings to 27.
- We received 11 site transfer approvals for French market, so far highest in a quarter. With this, cumulative approved site transfer applications have reached 17.
- We launched Slimona (Rimonabant) – the new generation anti-obesity drug, and we are the first company to launch this revolutionary drug in India.
- API exports (excl. Zydus Altana business) registered another quarter of strong performance with growth of 43%,

despite unfavourable movement in foreign exchange rate.

- Consumer business also posted healthy growth of 25%, with Nutralite registering 48% growth over previous year.
- USFDA audit of our Moraiya plant has been completed successfully, without any adverse remark.
- Phase I clinical trials of ZYO1, our NME candidate for anti-obesity and Phase II clinical trials of ZYI1, our anti-inflammatory NME candidate have started.
- We completed three acquisition deals during the quarter:
  - We acquired 100% stake in Nippon Universal Pharmaceutical Ltd., a privately held company headquartered at Tokyo.
    - This acquisition will provide us critical access to a ready manufacturing and marketing base as well as a strong distribution reach to more than 4000 hospitals and clinics in Japan.
  - We acquired 100% stake in Quimica e Farmaceutica Nikkho do Brasil Ltda. (Nikkho), a mid-sized, privately held company in Brazil.
    - This strategic acquisition brings in an added advantage of making a foray in the 'branded generics' business in Brazil, with ready manufacturing facility in Brazil, 22 launched products and nearly 50 registered products which can be launched in future.
  - We also acquired remaining 50% in JV with Sarabhai, which is now renamed as Zydus Animal Health Ltd.

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

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

**Moderator:** Thank you sir. Ladies and gentleman we will now begins at the questions and answer session. If you have a questions 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 hash (#) key. We have our first question for Mr. Bhavin. Please go ahead sir.

**Bhavin:** Yeah thanks for taking my question. Congrats on the numbers. My question really pertains to the international markets. First one I would like to take America, just wanted to figure out sir, given the pricing erosion and the fact that the generics market is seeing a lot of competition, how do you see the growth to stabilize with the launches now that you would expect to do this year.

**Pankaj Patel:** For current year we have a clear visibility that we should be grossing a sale of about \$50 million in USA. We are aware of the market situations and the pricing pressures, but based on the product portfolio we have and the kind of customers with whom we have tied-up with, we clearly see that growth story is going to continue. And we are also aiming at a good profit margin in the US business.

**Bhavin:** Okay. And on the French markets what was the profit that you said that you have gained in during the quarter.

**Pankaj Patel:** During the quarter as I mentioned, for the first time we made operating profit of 85,000 Euro. And as I said during the last conference call that this year we are expecting the French business to breakeven. And we are very much on track as far as that is concerned. It is a first ever quarter in France with the operating profit and going forward we are very clearly seeing that every quarter we will have profits generated in the French business.

**Bhavin:** Great sir. And would it be fair to assume that it would, given the long term scenario, be nearly about 10% of the turnover that we generate.

**Pankaj Patel:** Long term yes for sure.

**Bhavin:** Okay, great. And sir one more thing I had quick question on the emerging markets, there have been a series of

acquisitions, what are we really looking at? Is it the size or is it the profitability that we are going to generate or are we missing out with some opportunity.

**Pankaj Patel:** As far as emerging market is concerned, our strategy is basically focused on few markets. And in this focused markets, we are looking at basically market access through acquisition. Looking at the Brazilian market, the market still is very attractive for branded generics, and we were targeting at entering branded business. And we realized that the quick win would be through an acquisition. And that is the reason why we did acquisition in Brazil, which would basically allow us to enter the branded market. But I clearly see that emerging market and again not all emerging market but key focused markets, we are going to look at acquisitions because we would like to have a strong presence in these markets. Overall the strategy is to be in few markets but become significant players in those markets over a period.

**Bhavin:** Alright sir. And sir just wanted to figure out how are the developments going on with the Hospira JV.

**Pankaj Patel:** Well the joint venture is very much on track; we are going to start our first batches in the month of September in the newly constructed manufacturing facility. We are expecting commercial production to start from April next year.

**Bhavin:** Great sir, and would you give a figure to what sort of peak revenue potential would we expect from these facilities coming.

**Pankaj Patel:** Currently we are not giving any guidance on that. Please wait for a while and we will provide a guidance in a short while.

**Bhavin:** I will be in a queue I have a couple of questions, thank you so much.

**Moderator:** Thank you Mr. Bhavin. We have our next question from Mr. Niraj Somaiya from Span Capital, please go ahead sir.

**Niraj Somaiya:** Yeah congratulations on the good result. Sir –

**Pankaj Patel:** Could you be a little louder.. I cannot hear you, please.

**Niraj Somaiya:** Good evening and congratulations on these results. Just would like to know how much have we paid for the Liva acquisition.

**Pankaj Patel:** I think you could take this offline with our finance department, they may provide you some visibility on that, but so far we have not disclosed this information yet to anybody. So I am afraid that I may not be able to do it. Once we take a call whether we should disclose this information we will let you know.

**Niraj Somaiya:** Sure. And for the targeted the top line of the company, what could be the drivers –

**Pankaj Patel:** Which target you are talking about.

**Niraj Somaiya:** The \$ 1 billion top line target for 2010.

**Pankaj Patel:** Our 2010 milestone of a billion dollar is basically going to be driven by all around growth, and it's going to be all organic. We are looking at continuous growth in the domestic markets. We are also looking at aggressively growing the international business, with our joint ventures kicking in revenues. And all that put together should help us achieve these numbers.

**Niraj Somaiya:** And if you could share some information on your NCE pipeline.

**Pankaj Patel:** As I mentioned earlier, we have four products in clinical development. Our first product ZYH1 is in the Phase II Trial and there are over 200 patients on this drug. We have completed study on 30 patients and the trial is moving satisfactorily. Our second molecule ZYI1 has moved into Phase II Trial recently and we are making good progress on that. Recently we got permission to start Phase I trials for ZYO1 and we have started the study and we hope to complete the study during this year. ZYH1 is undergoing Phase I Study. We have 3 molecules in the pre clinical development and we hope to file IND's for them during this year.

**Niraj Somaiya:** And would any of them be out-licensed over the next 6 months?

**Pankaj Patel:** Well whether these candidates will be out licensed, the answer is not clear because let me clarify that our strategy is to license the product after completion of Phase II Study. So we are not rushing for licensing out as per our strategy because our long term goal is basically to build a research driven pharmaceutical company. And as a result we need to build a capability to have our own product development up to the final stage. However if there are compelling results and where the offers are too attractive, we are open to look at out-licensing opportunities but please do not expect any licensing announcement from us at least during this year.

**Niraj Somaiya:** Sir, thank you.

**Moderator:** Thank you Mr. Niraj. We have our next question from Mr. Bhavin, Sundaram Mutual Fund. Please go ahead sir.

**Balaji:** This is Balaji from Sundaram Mutual Fund. Actually my question is you know on this good domestic API growth and also good export API growth, was it achieved by volume growth or value growth?

**Pankaj Patel:** It's mainly volume growth, not a value growth. Value growth has been achieved because volumes have gone up, and volumes have grown more than value because there was price erosion on API.

**Balaji:** Okay.

**Pankaj Patel:** And that's mostly coming from exports.

**Balaji:** Fine and on the US business, as a part of the strategy, would you be looking at filing Para IV which you could monetize to say at 24 or 30 months from now?

**Pankaj Patel:** First of all we are filing Para IV and we have good number of Para IV already filed. Our strategy is none infringement. As a result we are not in course of legal battle in most of the cases, barring one or two. Our strategy is basically to create a pipeline which would ensure that we are able to continue growing the business. And as the product becomes mature and price erosion takes place we have more products coming in to make sure that we have continuous growth. More I cannot disclose at this moment but we are very confident to continue growing the US business in the next few years and our plans for that up to 2010 are ready.

**Balaji:** So at what level of US market sales do you think that it will not continue to grow.

**Pankaj Patel:** We don't believe that it would ever happen because we have some strategies planned apart from what we are currently doing in the area of oral generic products. We are also looking at other options like recently we incorporated a new company Zydus Noveltech which is for developing some drug delivery based generic products. And we have enough plans charted out to ensure that this additional businesses would continuous growth in the US business.

**Balaji:** Okay, sir thanks.

**Moderator:** Thank you Mr. Bhavin. We have with us Mr. Chirag from Citigroup. Please go ahead sir.

**Chirag:** Yeah good evening sir. Sir can you throw some light on the raw material cost for this quarter, which seems to have gone up very sharply.

**Pankaj Patel:** Yes the raw material cost for the quarter is up by about 2% and that is mainly an issue because of lower realization and product mix.

**Chirag:** Lower realization is it.

**Pankaj Patel:** Yeah lower realization has happened because of foreign exchange, the export realizations have been lower and plus of course there is a product mix issue.

**Chirag:** When you say product mix you mean which part of the business?

**Pankaj Patel:** It is mostly API.

**Chirag:** Product mix mostly API and that too domestic.

**Pankaj Patel:** Overall API I would say.

**Chirag:** Overall API, okay sir and so the other thing was that in terms of your R&D spend, which has not gone up dramatically this quarters. I was just wondering have you capitalized any part of R&D.---

**Pankaj Patel:** No.

**Chirag:** No capitalization?

**Pankaj Patel:** No capitalization.

**Chirag:** Okay sure and sir what is the continuing like-to-like growth in the consumer business.

**Pankaj Patel:** Approx. 25%.

**Chirag:** About 25%. Okay sir. And sir I think I missed the part on the NCE research. Can you just quickly run through that sir?

**Pankaj Patel:** We have actually 4 products in clinical development. Our first molecule ZYH1 is in Phase II Study. I mentioned that we have completed Phase II A trials, we have now enrolled over 200 patients on this drug, of which trials on 30 patients have already been completed. We intend to complete the Phase II Study during this year. We have started Phase II Trial for our next molecule which is ZYI1 and we intend to complete the Phase II Study for ZYI1 during this year. The other two molecules which are ZYH2 and ZYO1 are in the Phase I Clinical Study at this moment. And we intend to complete them during this year. Apart from these, we have three more molecules under clinical development.

**Chirag:** Okay thank you so much sir.

**Moderator:** Thank you Mr. Chirag. We have Ms. Mallika from Sharekhan. Please go ahead ma'am.

**Mallika:** Hello sir congratulation on a good set of numbers, I just had few questions actually I am not sure if I missed the initial part of the call when you gave out the numbers for the US, France and the Brazilian business the sales and the profit figures, that is number one. And I just wanted to understand that when you say that like to like growth in the consumer business was 25% I mean does that include the Animal Health JV and the Nutralite sales in this quarter which I understand was not there last year.

**Pankaj Patel:** First of all let me explain the numbers of US and France. US business posted sales of Rs. 601 million, and grew by 122% during the quarter, and registered profit of Rs.60 million after minority interest. The French business posted sale of Rs.337 million and profit was Euro 85000.

**Mallika:** It's okay.

**Pankaj Patel:** And coming to your questions about consumer product business, the consumer product business grew by 25% and that does not include animal health business. It includes our consumer product business plus the Nutralite brand. And let me clarify that Nutralite sales was there in last year also.

**Mallika:** Thank you sir. What about the Brazil numbers?

**Pankaj Patel:** Brazilian business clocked sales of Rs.54 million during the quarter. And loss was Rs.5 million during the quarter. This does not include the new acquisition.

**Mallika:** Okay fine. So the numbers of the acquisition are not included in this quarters result. So when will you start reflecting those numbers?

**Pankaj Patel:** This will get reflected next quarter onwards.

**Mallika:** Okay fine, thank you sir.

**Moderator:** Thank you Ms. Mallika. We have with us Mr. Bhavin from Daulat Capital. Please go ahead sir.

**Bhavin:** Thanks for taking my question, I just wanted some financial numbers, one sir if we could give the turnover figure for Altana and profit please.

**Pankaj Patel:** Yes during the quarter, Zydus Altana JV made a sales of Rs.208 million and profit of Rs.153 million.

**Bhavin:** Okay and sir if you could give us a bifurcation of Carnation and the Sarabhia JV quarterly turn over figure.

**Pankaj Patel:** Yes. Carnation posted sales of Rs.118 million.

**Bhavin:** Okay

**Pankaj Patel:** And Animal Health Business has posted sale of Rs.256 million.

**Bhavin:** Alright sir, thank you so much.

**Moderator:** Thank you Mr. Bhavin for the question. For any further questions participants are requested to press \* and 1. We have with us Mr. Rahul Sharma from Karvy Stock Broking. Please go ahead sir.

**Rahul Sharma:** Could you give us more clarity on Pantaprazol and how it's going to be with its patent expiry in 2009 and 2010. How will Zydus be able to make up for the likely losses in revenues and profits?

**Pankaj Patel:** I have mentioned before and I would like to repeat here that our new joint venture with Zydus Mayne, the manufacturing facility for which has been constructed and first batches are expected to be taken in the month of September, and full commercial production is expected to start from April 2008. This joint venture is going to generate enough revenues to compensate any reduction in profits, which may arise because of patent expiry of Pantaprazol. At the same time we are currently in discussions with our partner to expand the scope of joint venture to ensure that some additional products can be manufactured in the joint venture. We have nothing finalized as of yet but we will let you know when further developments happen. So there are enough plans put in place to make sure that when this gap arises, we have enough revenues generated from additional initiative to compensate more than what we lose.

**Rahul Sharma:** Sir, when will the patent expiry start happening in various markets, key markets.

**Pankaj Patel:** I do not have the number, the exact years of which market, available in front of me. I can tell you the US patent expiry is in 2010, which is a key market..

**Rahul Sharma:** And Zydus Mayne will start contributing from when.

**Pankaj Patel:** Next year onwards, April is going to be the first month of commercial production.

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

**Moderator:** Thank you Mr. Sharma for your questions. We have with us Mr. Kartik from Man Financials, please go ahead sir.

**Kartik:** Can you share with us from which quarter, will we start including the sales of Liva Healthcare.

**Pankaj Patel:** Liva Healthcare results have been included in this quarter results.

**Kartik:** How much was the sales if you could share that.

**Pankaj Patel:** For the quarter, Liva Healthcare's sales was Rs.76 million.

**Kartik:** Okay, thank you.

**Moderator:** Thank you Mr. Kartik for your questions. We have with us Mr. Alok Dalal from Religare Securities, please go ahead sir.

**Alok Dalal:** Yeah, sir could you please provide some guidance with respect to your Brazilian acquisition.

**Pankaj Patel:** Nikkho Brazil, which we have acquired recently, has a sale of about \$30 million. And we expect that this business should grow at around 20% in the next 2 years and then after we would see further ramp up of the business growth.

**Alok Dalal:** Okay and this will be largely through new product launches I believe.

**Pankaj Patel:** Yes.

**Alok Dalal:** And sir the other question, your fund raising program of \$100 million, how is it progressing.

**Pankaj Patel:** Well we have approval of the board and also today we have an approval of the shareholders for raising the funds. We have kept this option open and at appropriate time we will raise the money for any future fund requirement of the organization.

**Alok Dalal:** Okay. So this will be largely for acquisitions, right.

**Pankaj Patel:** Yes of course.

**Alok Dalal:** Yeah, and which area sir now are you looking at.

**Pankaj Patel:** We are looking at Europe and Latin America,

**Alok Dalal:** Okay, thank you sir.

**Moderator:** Thank you Mr. Alok. We have Mr. Chirag from Mehta Partners, please go ahead sir.

**Chirag:** Yeah hi, congratulation for an excellent set of numbers and a great outlook. Sir a couple of questions, one on R&D, how do we see the R&D cost shooting up for the rest of the quarter.

**Pankaj Patel:** I guess the R&D cost as % to sales is going to be more or less same for rest of the year.

**Chirag:** On a similar number.

**Pankaj Patel:** Yeah.

**Chirag:** Around 5% to 6% mark ?

**Pankaj Patel:** Last year our revenue R&D spend was almost 7% of revenues, which is going to be maintained this year also.

**Chirag:** Great. And the Forex or losses, where are they included, if you could just throw some light, I missed the initial part.

**Pankaj Patel:** Okay, I think nobody asked the question, but let me just give you the numbers. We lost because of lower realizations almost Rs. 94 million due to exchange rate fluctuation and we have gained about Rs.91 million on translation of foreign currency loan. So during the quarter, the forex gain and forex losses were almost equal.

**Chirag:** Okay. And the Rs.94 million lower realizations would be hit in the revenue part.

**Pankaj Patel:** Yes.

**Chirag:** And the Rs.91 million gain ?

**Pankaj Patel:** It is separately reported in the P&L along with interest cost.

**Chirag:** Okay. Yeah I see it now, okay. Great thanks a lot, sir.

**Moderator:** Thank you Mr. Chirag. We have with us Mr. Mallika from Sharekhan, please go ahead ma'am.

**Mallika:** Sir can you tell me the R&D cost incurred during the quarter please.

**Pankaj Patel:** Yeah, for the quarter the R&D cost is Rs.376 million.

**Mallika:** And compared to the previous quarter of the last year what was that.

**Pankaj Patel:** Rs.331 million.

**Mallika:** Okay. And just another question, have you included the revenues and profits from Nippon, the Japanese acquisition.

**Pankaj Patel:** Yeah everything has been included.

**Mallika:** Okay, can you give us how much that contributed in the quarter.

**Pankaj Patel:** Yeah during the quarter the sales of Nippon is Rs.12 million and the profit is Rs.1 million.

**Mallika:** Okay, thanks so much.

**Moderator:** Thank you Ms. Mallika. We have with us Mr. Bhavin from Daulat Capital, please go ahead sir.

**Bhavin:** Thanks for taking my question again, sir, I have 3 quick questions, one is how are the developments going on the Bharat Serums venture, because I believe that, that along with Hospira JV would really take care of your profitability. And my second question is on the Sikkim facility which was supposed to be operational and my third question is on the debt and cash position, thank you.

**Pankaj Patel:** Okay the first is, the joint venture with Bharat Serums. The clinical trials of the product are moving very rapidly. We are completing our studies, and we have some interesting results. We would be able to give you more interesting data on this, once the trials are completed which we expect in next few months. Second, as far as Sikkim facility is concerned, it is all set for commercial production. And we are going to get benefit of Sikkim production from this year. And in the process we will see, during the next proceeding quarter, our tax rate will marginally go down. The last question was regarding debt and cash position. Our debt, on consolidated basis was Rs. 618 Crores, including the buyers' credit of Rs.20 Crores. And the cash position is about Rs.114 Crores.

**Bhavin:** Okay, sir my last question is, if I just exclude the FOREX gain, I do not know if it would be appropriate to do that but if I remove that my profitability is not really up to mark during the quarter, is there any console that you see, in what is ahead.

**Pankaj Patel:** I think this quarter we have higher expenses because first quarter it is always high. And we believe that going forward the expenses are going to be lower, so that is basically a timing issue. Because some of the expenses are incurred in the first quarter itself, but in forthcoming quarters, we would have lesser expenses.

**Bhavin:** Okay and more so the tax incentive would also come in, right.

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

**Bhavin:** Okay, wish you all the best sir, thank you so much.

**Pankaj Patel:** Thank you.

**Moderator:** Thank you Mr. Bhavin for your questions. We have with us Ms. Mallika, please go ahead ma'am.

**Mallika:** Yes just one more question from my side. I just had a question on the raw material cost, and gross margins were under pressure because of the rupee-dollar movement, assuming that the rupee remain stable at current levels, I mean are we

expected to see this kind of pressure going forward also.

**Pankaj Patel:** It will ease out to some extent but not fully, because there is a pressure on realization because of dollar depreciation, but as we move forward we clearly see that product mix is going to improve. There are series of action taken in terms of further cost reduction, and price improvement, which should start from next quarter onwards.

**Mallika:** Okay thank you sir.

**Moderator:** Thank you Ms. Mallika. We have our next question from Mr. Rahul Sharma, please go ahead sir.

**Rahul Sharma:** Sir we already have a tie up currently in US, could you give us more clarity on the current tie up and is it expected to focus on some other activities.

**Pankaj Patel:** No as far as the current tie up in US with Mallinckrodt is concerned, we are not expecting additional tie ups.

**Rahul Sharma:** This is for additional products?

**Pankaj Patel:** It is for only the overall generic products in the US markets.

**Rahul Sharma:** Okay so the Mallinckrodt JV does not have oral generics.

**Pankaj Patel:** We do not have joint venture, they are our distributors in US.

**Rahul Sharma:** Okay they do not have any equity participation.

**Pankaj Patel:** No equity participation exist except that we have kind of distribution relationship.

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

**Moderator:** Thank you Mr. Sharma for your question. For any further questions participants are requested to press \* and 1. We have with us Mr. Manish Bhandari from ING Investment. Please go ahead sir.

**Manish Bhandari:** Hi good evening. One thing we have been waiting for the profits of the France business in which we have started seeing profits now, I just wanted to understand what would be the key potential profits within 3 year horizon in French market.

**Pankaj Patel:** We clearly see that the French business should make 10%+ profits going forward.

**Manish Bhandari:** Can you give us some kind of revenue guidance what you have in your mind in terms of what should be the number actually one could assume.

**Pankaj Patel:** This year we should expect the sales in excess of 30 million euros. And we should break even in French market.

**Manish Bhandari:** And what about next year?

**Pankaj Patel:** For next year, we are not giving any guidance but you can see that we are growing very rapidly in French market and we hope to continue the pace.

**Manish Bhandari:** Okay is this because of the change what you have done on the distribution side may be a year back, is that the reason?

**Pankaj Patel:** I think from the beginning we have been following a very different model in French market. We have a kind of variable cost model so that we have lower overheads, lower operating cost thru outsourcing lot of activities. And as a result we are able to keep our overheads low and at the same time we are able to grow the business at a very high speed because of aggressive marketing efforts in the marketplace through some innovative marketing strategies.

**Manish Bhandari:** Okay one thing you have mentioned about raising capital for further acquisition, you want to do back-

to-back or you have already identified or you just want to keep the funds ready?

**Pankaj Patel:** First of all we have not a back-to-back arrangement for any acquisition but we have an enabling resolutions approved by board and the shareholders to raise the money and you know given that we could have some good opportunities and we want to be ready to raise the money at a very short notice if required.

**Manish Bhandari:** Well it is not back-to-back.

**Pankaj Patel:** It is not back-to-back.

**Manish Bhandari:** Thank you.

**Moderator:** Thank you Mr. Bhandari. We have with us Mr. Bhavin from Daulat Capital. Please go ahead sir.

**Bhavin:** Yeah thanks, sir I just forgot to ask you what are the other CRAMS contracts that stand today in terms of the revenue potential.

**Pankaj Patel:** As on today we have 24 contracts signed having peak revenue potential of \$35 million.

**Bhavin:** Okay sir and in France how many products do we have in the marketplace?

**Pankaj Patel:** Today we have over 90 presentations in French market.

**Bhavin:** And sir launches would you give a number this year?

**Pankaj Patel:** We expect to launch another 5 or 6 products before end of this year.

**Bhavin:** Alright sir thank you.

**Moderator:** Thank you Mr. Bhavin. For any further question participants are requested to press \* and 1. Participants are requested to press \* and 1 for any further questions. We have with us Mr. Ravi Agarwal from JP Morgan. Please go ahead sir.

**Ravi Agarwal:** Yeah hi thanks for taking my call actually I have joined in a bit late and I apologize if this questions that all you have been asking. Can we have a breakup of the US, Brazil and French subsidies business for this quarter ?.

**Pankaj Patel:** Yes the US sales was Rs.601 million, France sales number was Rs.337 million and Brazil sales was Rs.54 million.

**Ravi Agarwal:** And what was Brazil's number last year the same quarter.

**Pankaj Patel:** Rs.48 million.

**Ravi Agarwal:** The second question was on R&D. What is the R&D expenses in this quarter.

**Pankaj Patel:** Rs.376 million which was Rs.331 million last year.

**Ravi Agarwal:** And the losses in our French subsidiaries how much would that be for this quarter.

**Pankaj Patel:** This is the first quarter where we have made a profit in the French subsidiaryies this quarter we made a profit of 85,000 Euro.

**Ravi Agarwal:** And the Brazilian subsidiaries.

**Pankaj Patel:** The Brazilian subsidiary has made a loss of Rs.5 million.

**Ravi Agarwal:** Okay, thank you very much.

**Moderator:** Thank you Mr. Agarwal for your questions. We have with us Mr. Bhavin, from Sundaram Mutual Fund.

**Bhavin:** Actually you know I would just like to know your views on R&D being demerged to a separate company.

**Pankaj Patel:** That is a different strategy for different company so I have no views.

**Bhavin:** Okay.

**MK Patel:** Do you believe that it could add value to the share holders ?

**Pankaj Patel:** It is accounting you know I do not understand anything else apart from this, but I cannot comment more about that.

**Bhavin:** Okay, thanks.

**Moderator:** Thank you Mr. Bhavin. We have with us Mr. Manish Bhandari from ING Investment, please go ahead sir.

**Manish Bhandari:** Hello, yeah just one follow up question. Can you share some insight on the realization trend in the French market and in the Brazilian market and then US market and your experience?

**Pankaj Patel:** Our experience is that the realization in the Brazilian and the French markets are stable, while in the US market, the realization pressure continues. There is hyper competition. More and more Indian players are trying to enter the US market. And the pressure on margins continues. And unless we continue doing a cost reduction effort on an ongoing basis, it is difficult for any company to protect the margin in the US markets. So our efforts are on the full scale to ensure that we are able to bring down our overheads and cost both in US and in India.

**Manish Bhandari:** You see some kind of pressure building up in the French market and the Brazilian market.

**Pankaj Patel:** I do not see that in French or Brazilian market yet.

**Manish Bhandari:** Okay and second thing, you mentioned about the acquisition, can you explain in detail, which area or what is it you want to acquire and what area.

**Pankaj Patel:** Basically acquisition strategy which we have made is for market access. And logically our expansion would be in the market, which we have identified as key growth markets. So in these markets we are looking at acquisitions for better market share. So for example what we did in France, we would like to repeat in some other European markets.

**Manish Bhandari:** And how big that number would be in fact.

**Pankaj Patel:** Well it depends what we acquire, currently we have nothing to give you a specific number. We do not look at big acquisitions and generally our acquisitions would be small, and idea would be to basically use that as a kind of a catalyst to enter the market quickly.

**Manish Bhandari:** Okay, thank you.

**Moderator:** Thank you Mr. Bhandari for your questions. We have with us Ms. Mallika from Sharekhan, please go ahead ma'am.

**Mallika:** Just two more questions. Just wanted to understand what are your plans with this Brazilian and the Japanese acquisition. And in the Brazilian business has been making losses so do we see this turning profitable with the entry into the branded generic space. Also you know how do we hope to grow this going forward. And also in Japan what are we planning to do in Japan?.

**Pankaj Patel:** First of let us address Brazil. The Brazilian business you know it was a Greenfield project where we started our own subsidiary and started launching products last year. So obviously you know it is a starting point so there is a small loss. The business which we acquired is a profit making business. And for next quarter onwards we should see profit in Brazilian market. As far as Japan is concerned, it was a small business and we expect that this is going to be a vehicle for us to register our products into Japan in our own name because we have our own manufacturing facility in Tokyo, Japan. And with that we will register our products into Japan, we really see our revenue that coming up in the Japanese market in

about 2-3 years time.

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

**Pankaj Patel:** Thanks.

**Moderator:** Thank you Ms. Mallika. We have with us Mr. Chirag from Mehta and Partners, please go ahead sir.

**Chirag:** Yeah hi, thanks for taking my call. Sir could you provide us any sense of the kind of payback for the Brazilian acquisition.

**Pankaj Patel:** We are looking at less than 5 years payback.

**Chirag:** less than 5 years. Okay, thank you.

**Pankaj Patel:** Thank you Mr. Chirag for your questions. For any further questions participants are requested to press \* and 1. We have with us Ms. Mallika from Sharekhan, please go ahead ma'am.

**Mallika:** Just have one more question on your domestic business, I mean, understand the branded formulation segment have grown by about 18% in the quarter. Now with the acquisition of the Liva Healthcare what is the outlook for the segment going forward?

**Pankaj Patel:** Liva is a small acquisition compared to the size of domestic business we have.

**Mallika:** That is right.

**Pankaj Patel:** So that is not going to significantly impact the growth because we acquired that, but still I think we are looking at an overall growth rate of around 15% going forward.

**Mallika:** And sir, the branded segment will continue to grow and the generic segment will continue to decline ?

**Pankaj Patel:** That is right because that is the way the market is also going to be.

**Mallika:** Okay thank you so much.

**Moderator:** Thank you Ms. Mallika. Participants are requested to press \* and 1 on your push button phone. For any further questions participants are requested to press \* and 1. We have our next question from Ravi Agarwal from JP Morgan.

**Jesal:** Hello, this is Jesal.

**Pankaj Patel:** Hi Jesal, how are you.

**Jesal:** Good, how are you.

**Pankaj Patel:** Where are you ? I haven't seen you these days.

**Jesal:** Yeah I am here only very much around.

**Pankaj Patel:** Okay Jesal then go ahead.

**Jesal:** You know just wanted to understand this animal healthcare business has any revenue in the first quarter on that?

**Pankaj Patel:** Yes.

**Jesal:** How much would that be.

**Pankaj Patel:** The revenue for the quarter for Animal Health business is Rs.256 million.

**Jesal:** And how much of this is upon, increasing the stake in that business.

**Pankaj Patel:** Okay, half of this, because we already had 50% and we have acquired 50%, so half of that.

**Jesal:** Okay. And second thing is on the contract manufacturing revenues, may be you can just quantify how much of that.

**Pankaj Patel:** For the quarter the revenue is Rs.56 million.

**Jesal:** So this seems to be a little bit lower than the full year expectation.

**Pankaj Patel:** Yeah, its only timing issue.

**Jesal:** Okay so for the full year we are still looking at, okay. And the other thing is on the foreign exchange, if you can just help us understand how much and what will be the impact of foreign exchange in your revenue line, on your cost line and in terms of translation benefits.

**Pankaj Patel:** On the revenue line, there is a loss of Rs.9.4 Crores. and on borrowing we have a gain of Rs. 9.1 Crores which is almost neutral I would say.

**MK Patel:** Jesal 9.1 has been reported as extraordinary, below the interest cost.

**Jesal:** Yeah.

**MK Patel:** And 9.4 has gone into trading account as expenditure.

**Jesal:** Sorry 9.4 has gone where ?

**MK Patel:** It has gone in the other expenditures.

**Jesal:** And so there is no other treasury gain or loss here.

**Pankaj Patel:** No.

**Jesal:** And what about the outlook for the US business.

**Pankaj Patel:** Jesal we expect that we would cross \$50 million this year.

**Jesal:** Okay. Thank you so much.

**Moderator:** Thank you for your questions. For any further questions participants are requested to press \* and 1. Participants are requested to press \* and 1 on your push button phone. We have with us Ms. Mallika from Sharekhan, please go ahead ma'am.

**Mallika:** Sir total debt of 618 Crores, can you tell us how much would be in foreign currency.

**Pankaj Patel:** About 65%.

**Mallika:** Okay, thank you.

**Moderator:** Thank you Ms. Mallika. For any further questions participants are requested to press \* and 1. For any further questions participants are requested to press \* and 1. As there are no more questions I would now like to handover the conference call to Mr. Pankaj Patel, please go ahead sir.

**Pankaj Patel:** Thank you very much for joining the conference call. And wish you a good evening, thank you.

**Moderator:** Ladies and gentleman this concludes your conference for today. We thank you for your participation and using Tata Indicom conferencing services. You may please disconnect your lines now. Thank you.