



“Wockhardt Limited Q3 FY-’14 Earnings Conference Call”

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Moderator: Ladies and Gentlemen Good Day and Welcome to Wockhardt Limited Q3 FY-'14 Earnings Conference Call. As a reminder, all participants' line will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Tushar Mistry – GM, Investor Relations and Corporate Affairs at Wockhardt Limited. Thank you. And over to you, sir.

Tushar Mistry: Hello everybody. Good Morning. I welcome you all to this Earnings Call for Q3 FY-'14. We have today with us our Managing Director – Dr. Murtaza Khorakiwala; and our CFO – Mr. V. Suresh. We will begin with a short presentation by Dr. Murtaza on the Q3 FY-'14 Results which will be followed by the Q&A session. I now hand over to Dr. Murtaza for the presentation.

Dr. Murtaza Khorakiwala: Thank you. I welcome you all to the “Q3 Management Presentation” for Wockhardt. A very good morning to all of you. Going on to the presentation on Slide #4, just to give you a little bit of summary – a background of the organization, today, we have 8,600 associates as a part of the Wockhardt team and we have direct business operations in US, UK, Ireland, France, India, and have started our operations in Mexico over the last 1-year. Additionally, we have operations through various distributors and partners in the Emerging Markets all around the world.

Slide #5, a snapshot of our manufacturing organization, we have 12 manufacturing facilities all around the world – 9 facilities in India and 3 facilities outside India – 1 in UK, 1 in Ireland and 1 in Chicago. We have three research centers: The main one that is there in India in Aurangabad, and additionally, we have 1 in UK and 1 in USA at Chicago.

To give you an update on some of the recent regulatory inspections that we have had and what is the status as of today on Slide #9; over the last 9-months we have had 17 regulatory inspections, of which 13 have had a positive outcome that is with minor observations or no observation. 4 of them have had critical or major observation. And as far as the current quarter is concerned we have had 6 additional inspections – 5 of them have had positive outcome, and 1 has had a negative outcome. During the current quarter our Chikalthana facility received an import alert from the US FDA and UK; however, for US, 5 products have been allowed to be manufactured, and for UK 10 products have been allowed to be manufactured for the UK market.

Going to the ‘Financial Results’ on Slide #11: Our quarterly sales is at Rs.1,237 crores which is a decline of 14% compared to last year. Our EBITDA is at Rs.241 crores against Rs.545 crores of last year which is a decline of 56%. Our adjusted PAT is at Rs.250 crores compared to Rs.410 crores of last year which is a decline of 40%.

And coming on to Slide #14, R&D cost for the quarter is at 9.2% to sales, primarily because of a reducing top line.

Going to Slide #16, our 9-monthly sales is at Rs.3,792 crores Vs Rs.4,124 crores of last year, which is a decline of 8%. Our EBITDA stands at Rs.858 crores Vs Rs.1504 crores of last year, which is a decline of 43%.

Slide #18 our adjusted PAT is at Rs.707 crores Vs Rs.1,180 crores of last year which is again a decline of 40%. Some of the key financial ratios and highlights as of now, our net-debt-to-equity has considerably improved and now is only at 0.06 as against 0.36 at the beginning of the year. Our free cash flows before CAPEX for the 9-months is at Rs.1100 crores. Our CAPEX for the 9-months is Rs.300 crores and our R&D expenses are at 9.2% of our sales for the quarter and 9% of sales for the 9-months.

To give you a sense of various businesses and how they are progressing, our US business has declined by 30% in overall terms and 37% in dollar terms for the quarter. For the 9-months we have filed 7 ANDAs and 53 ANDAs are pending approval. Our UK operations have grown by 10% in the quarter and 5% in 9-months period. We have launched 4 additional products in the 9-months and we are the “3rd Largest Generic Company in UK” and the “1st in the Hospital Segment.” Ireland grows by 24.7% in the 3rd quarter and for the 9-month period it has declined by 16%. We are continuing to be the largest generic player with a 27% market share and we have launched one product in the 9-month period. Emerging markets including India has declined by 15% for the quarter and 21% for the 9-month.

The India business has grown by 6% for the quarter. 16 new products have been launched in the 9-months in India. Additionally, two new divisions have been launched in the Indian market. Our ROW emerging market operations have declined by 15% during the quarter and 21% in the 9-month period primarily due to product availability issues. Thank you very much for listening to the presentation. I would like to now open the session to question-and-answers, I would be happy to take your questions.

Moderator: Thank you very much sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal: A question on Wockhardt Bio, you had during the quarter listing for this one. So just wanted to know the nature of this company, what it would be doing going forward and the money that we have raised which is I guess CHF 5, 23 million shares, so is that leading to the net debt improvement or what is the position there please?

V. Suresh: As our MD presented the presentation, we have a free cash flow of Rs.1,100 crores, so these are not exactly that the listing has actually contributed to net debt reduction, so it is all coming from operations. So that is the position as far as the net debt is concerned.

Prakash Agarwal: And Wockhardt Bio please?

- V. Suresh:** Wockhardt Bio is 100% subsidiary of Wockhardt Limited based out of Switzerland and it is the international headquarters of the group, and all our overseas business – US, UK, Ireland everything is captured under this subsidiary.
- Prakash Agarwal:** So US subsidiary is now linked to Wockhardt Bio, so is it....?
- V. Suresh:** Yeah, it was always the case. It is a more strategic, because in Switzerland a lot of the big pharma names are present out there so it is essentially trying to position ourselves from Switzerland, because going forward there are a lot of critical things for which we need a international leading edge. So that is why we have developed these as our international headquarter.
- Prakash Agarwal:** Just a follow up, I understand there has been a good cash flow from operations also, but it would be fair to assume that we have raised around CHF 100 million which is sitting under books?
- V. Suresh:** No, no, the size is much less actually, so it is around Rs.80-odd-crores which is what we have raised and we have done 5% dilution. It's more strategic in nature at this stage.
- Prakash Agarwal:** Second question is on the filing and the US inventory. So what is the number of filings we have made for the quarter? Just to get a sense on the US run rate quarterly, our sense was that given the import alert, we should have seen some Q-on-Q decline which we have not seen. Some part attributed to Bromfed in my view which is seasonally better. But, would you still say that there is enough inventory in the system – this momentum could sustain?
- Dr. Murtaza Khorakiwala:** No, I think as far as Waluj as well as L1 we do not have any significant inventory as of now.
- Prakash Agarwal:** But would it be fair to say that this December quarter did had a decent inventory which is now substantially lower that is what you are saying?
- Dr. Murtaza Khorakiwala:** That is right, the impact of L1 import alert has not been reflected in Q3, but will get reflected from Q4 onwards.
- Prakash Agarwal:** Which is our major product Toprol is coming from this?
- Dr. Murtaza Khorakiwala:** That is right.
- Prakash Agarwal:** How many filings we did?
- Dr. Murtaza Khorakiwala:** As of now we have done 7 filings in the US in the current year, and by the end of the year we expect to do additionally 5 more filings.
- Prakash Agarwal:** So just to get this clear, so as on 1H we had 7 filings. So this quarter we have done none?

Dr. Murtaza Khorakiwala: Yeah, that is right.

Prakash Agarwal: And 5 filings you are saying could be done from what Shendra or where would you because...?

Dr. Murtaza Khorakiwala: Yeah, majorly it would be done from Shendra.

Prakash Agarwal: In terms of regulatory update, so where are we in terms of responses from the US FDA or from our consultants because I understand you hired a very senior guy for the compliance, so I think the movement has started in terms of...?

Dr. Murtaza Khorakiwala: Yeah, I think we have made a significant progress and it is yet a work-in progress, in terms of outcome there is no specific outcome, in terms of restoration of the compliance certificate of any of the facilities, but in terms of work I think there is a significant amount of work that is happening, we have revamped and strengthened our leadership team in quality, in manufacturing and regulatory. Additionally, there is a significant amount of work that is being done in every facility of ours to review all the compliance-related issues that have been identified by the regulatory agencies as well as the consultants, and we are working I think as a team in various areas to improve some of these aspects whether it be in terms of the organization, whether it be in terms of strengthening our IT system so that there are no issues in terms of data integrity, whether it is in terms of training our people and ensuring that the practices and the SOPs are aligned with each other. So there is a work that is going on and it is moving in the right direction, it is moving ahead, and I think it is yet in progress, and I think going forward we expect may be in the next year, as we move ahead more rapidly at some point of time, the agencies would come for a re-inspection, and give us a feedback on how we are doing.

Prakash Agarwal: So based on our work that we have already done, have we already invited them for a re-inspection or do you expect them to come in the next 6-months or so?

Dr. Murtaza Khorakiwala: No, we have not invited them for re-inspection as of now, we are providing a regular update to them on a regular basis. So every 1 month or 2-months we are giving an update on the various improvements we are doing and the various compliances that we are managing. And based on that update I think they then take a call on their action, they provide us a feedback sometimes. They have not indicated any specific time when they would be coming.

Prakash Agarwal: But from your side when do you think you would be 100% ready?

Dr. Murtaza Khorakiwala: I think it is a work-in progress and we are moving ahead, and we have made a significant amount of progress, in fact, in January there was an inspection of our Chikalthana facility by UK MHRA, and they have identified some of the areas where improvement has taken place, and they have also identified certain areas where additional improvement needs to take place further. So, it is very difficult to say in terms of timing, but I think probably in the next 6-months, we should be fairly advanced in terms of achieving the level of compliance that is expected by the regulatory agencies.

- Prakash Agarwal:** Just to follow up on this, this Shendra thing when is that expected, Sir?
- Dr. Murtaza Khorakiwala:** We were initially informed that it would happen in October, and we have sent a follow-up letter requesting for a date, but we have not received anything specific from the agency.
- Prakash Agarwal:** But from our side we are ready for Shendra?
- Dr. Murtaza Khorakiwala:** Yes, we are making all preparations to be ready for an inspection if it does happen.
- Prakash Agarwal:** And UK is already done?
- Dr. Murtaza Khorakiwala:** UK liquid line has been done.
- Prakash Agarwal:** That UK approval is done?
- Dr. Murtaza Khorakiwala:** Yes, that is right, for Shendra the liquid line has been approved.
- Moderator:** Thank you. We have the next question from the line of Bino Pathiparampil from IIFL. Please go ahead.
- Bino Pathiparampil:** Following up on the earlier question, in some companies who got these kind of FDA issues, we have seen that the resolution is not a one-time affair and there are several repetitive steps, in some cases it is a product-by-product approval, do you have any sense of how it is going to pan out for you – we cannot predict time line – but will be like 6-months or 12-months or 18-months from now an inspection and ready to go order?
- Dr. Murtaza Khorakiwala:** Yeah, as I said I think it is very much contextual and very much dependent on the regulatory agencies and their perception but from a management point of view broadly if you ask us I think we should be able to resolve these issues by '14-'15, and the following year '15-'16 we should start reviving some of the business that has been affected by the suspension, and '14-'15 is the year I think we should be able to restore the compliance of these facilities.
- Bino Pathiparampil:** Is it possible to elaborate what are the factors which typically lead to a product-by-product approval, how that is not implicated in your case or something like that which can add a little comfort to this please?
- Dr. Murtaza Khorakiwala:** I think the product-to-product approval is something that we are not looking at as of now, but if you see what the agencies have already done, they have allowed one product from our EOU facility to be distributed in the US market, additionally the US have also allowed 5 products from our L1 facility to be sent to the US market. Also, if you see UK they have allowed 10 products from our L1 facility to be marketed in UK, and additionally in Kadaiya facility another 11-12 products have also been allowed for the UK market. So in a way I think we would say product-related approvals have already

been provided both in UK and US in the various facilities that we have. And what we are targeting I think going forward is achieving a full level of compliance and ensuring that now we are able to satisfy the regulatory concerns and get the restoration of our GMP certificate.

Bino Pathiparampil: Coming to the domestic business I have seen a decent growth of 6.5% Y-o-Y or so, does it mean that you had been able to capture the lost sales in Proxyvon group through the newly launched products in that group?

Dr. Murtaza Khorakiwala: There is an overall I think positive trend in the domestic business that we see which has been reflected to an extent in the Q3 and which would continue going forward, and we have launched a number of new products during the year, and also the additional follow-on product for Proxyvon as Spasmo Proxyvon which we have launched has been able to recover the sales of the original product. So I think going forward as a result of launching the follow-on products for Proxyvon group as well as the new products that we are launching in the year, we feel that we have returned back to growth in the domestic business, and that should continue going forward.

Bino Pathiparampil: Just a question on the expenses side; why has the employee expenses sharply come down in Q3? And other expenses sharply gone up?

Dr. Murtaza Khorakiwala: Let me come back to you later while I dig out that information, in the meantime I can take some additional questions.

Moderator: Thank you. We will take the next question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, in your opening comments you mentioned about 6 additional inspections, of which 5 have had positive outcomes and 1 has had negative outcome. Which one is the negative outcome? Which facility? And which regulator?

Dr. Murtaza Khorakiwala: The one I think what we got a feedback from US FDA of the import alert at the Chikalthana facility which we had not heard back from them since they inspected inspection in June, so this is the first time we got a feedback from the US FDA.

Chirag Dagli: Secondly sir you said there was a re-inspection by the MHRA, this was at Chikalthana?

Dr. Murtaza Khorakiwala: That is right.

Chirag Dagli: So after their inspections they have identified some areas of improvement and they are happy with some remediation measures that we have taken, is that how we should take this back?

Dr. Murtaza Khorakiwala: Yeah, they have seen progress in some of the areas that we have initiated over the last 3-months, they have seen that we have strengthened our organization in quality and manufacturing in terms of the

capability set, and a lot of improvements that have taken place, additionally, they have also identified certain areas that we need to further tighten up, and they have provided a good guidance in terms of how we should move forward. So that is how we are going to move ahead.

Chirag Dagli: On whatever they have indicated as areas of improvements we work and then we re-invite them, is that how this works?

Dr. Murtaza Khorakiwala: Yes, I think the way we are doing is we are keeping our lines of communication open with them, we are communicating regularly on the update in terms of what are the compliances and improvements that we are doing, and based on that the agency is actually taking a call on when to come and inspect us. The January inspection was also called in by the agency based on whatever progress they have seen in terms of our remediation and that is how I think we will proceed going forward.

Chirag Dagli: And the third question was sir was on the Shendra facility, we have indicated that we are ready for inspection by the US FDA. What steps have we taken to make sure that some of the observations that we have had at Chikalthana as well as at Waluj are not repeated at Shendra?

Dr. Murtaza Khorakiwala: We are applying all the learnings that we have had from the recent inspections as well as the consultant feedback, and we are reviewing all our operations at Shendra, and we are applying those learnings and those areas where we need to further tighten our operations, we are doing that in Shendra, our internal team is there working on that as well as we have consultants who are reviewing some of the activities at Shendra and providing us feedback, and on the basis of that we are strengthening our operations over there.

Chirag Dagli: But in terms of consultant time on Shendra, has it increased/decreased in terms of effort per se?

Dr. Murtaza Khorakiwala: Yes, additionally, I think what we have done is initially we had in the earlier quarter, most of the time was spent on L1 and EoU, but in the third quarter additionally time has been spent on the Shendra facility to make it more inspection-ready. In case, there is an inspection that is called in by the US FDA.

Chirag Dagli: In terms of the absolute number, the consultant fee, has it remained stagnant over Q2 Vs Q3?

Dr. Murtaza Khorakiwala: By and large it has remained the same; it is at around Rs.6-7 crores for the quarter.

Chirag Dagli: And this is just the consultant fee or over and above this is there a substantial remediation cost as well?

Dr. Murtaza Khorakiwala: There is a CAPEX involvement in various upgradation that we are doing in our equipments and our laboratory and the IT systems, so that is part of the remediation cost. Additionally, we are strengthening our manpower and our people at various facilities and in manufacturing and quality, so that is also an additional cost, and I think that is reflected in the other expenditure which the earlier

gentleman had raised in his question as to why the expenditure is higher. So some of the reasons for this is the additional regulatory and consultant cost as well as the increase in the manpower.

Chirag Dagli: One last question sir in terms of the Oral Solids facility at Shendra, any developments there?

Dr. Murtaza Khorakiwala: The design has been finalized, we are going to start work on the project fairly soon, and by the end of the year I think we should be completing that facility. So it is moving ahead and we are progressing on that.

Chirag Dagli: In terms of absolute size, Oral Solids will be how big in context with say Chikalthana or Waluj?

Dr. Murtaza Khorakiwala: It will be larger than both these facilities individually and we are planning to do it in two phases. So we are creating a facility for the future, and we are trying to make it the most modern facility that we have, and all the future filings that we are doing in terms of the solids we are doing from our exhibit batch facility in Shendra. So, most of the future pipeline will be from Shendra. So we are taking care of the requirements that are there for the next 5-years and based on that we are developing the facility.

Moderator: Thank you. We have the next question from the line of Evan Tindell from Ballentine Capital Management. Please go ahead.

Evan Tindell: My question is for the 5 products that FDA is allowing from Chikalthana and the 11 at the UK are allowing, what were the sales last year just a ballpark for those products?

Dr. Murtaza Khorakiwala: Last year on annualized basis for UK portfolio was about £3 million, and for US portfolio was around \$15 million.

Evan Tindell: You mentioned that the UK facility is shipping one product I think you said to the US which was the new development, right?

Dr. Murtaza Khorakiwala: The 5 products that has been allowed from Chikalthana facility to the US is a new development in Q3.

Evan Tindell: But I think you said something about the UK facility, if they are allowing one product to come from the UK facility or may be the Ireland?

Dr. Murtaza Khorakiwala: No, this is only regarding our India facilities. Our UK and Ireland facilities had no issues.

Evan Tindell: Since that the UK facility has no problem, is it possible to shift some of the products that were banned from Chikalthana and Waluj to the UK facility?

Dr. Murtaza Khorakiwala: Most of the products that are there in Chikalthana and EOU are tablet products, and our UK facility is not a tablet facility – it is an injectable facility. So that would become difficult. And also at the same time I think in a generic business cost competitiveness is extremely important and probably

manufacturing it in UK may not provide that competitive advantage. What we are doing though is we are shifting the products to alternative facilities in India as well as shifting the products to Shendra. And a combination of both these I think we are using to develop an alternate site for manufacturing.

Evan Tindell: For Shendra, would you guys need to spend a lot more money on capital expenditures to shift a lot more business to Shendra or is it just getting the approval and the money has already been spent on the capital to shift that production?

Dr. Murtaza Khorakiwala: As I said, we are creating a new facility in Shendra, and obviously, that would involve CAPEX. With that I think whatever is the R&D cost that we will be having that will take care of the product transfer, cost additionally that is there and CAPEX for the Shendra facility will take care of the facility part of the cost that is involved.

Moderator: Thank you. The next question is from the line of C. Srihari from PCS Securities. Please go ahead.

C. Srihari: Your quarterly run rate has been around Rs.1200 crores for the last two quarters. Can you give us some idea of what do you expect going forward? And second, on the other expenses front, are there any one-off items?

Dr. Murtaza Khorakiwala: Coming to your first part of the question, for the coming quarter, as you see, we have had a top line of Rs.1200 crores, in which Chikalthana impact was not there and Chikalthana impact that we expect on a quarterly basis is about \$40 million, so that additional impact would come. As far as the other expenses are concerned, we had mentioned that one is the consultancy, there is additional top line impact for the quarter of Rs.6 crores, and additional expenses impact is approximately Rs.30 crores for the quarter which includes various aspects of the regulatory situation which includes the FDA expenses, consultancy expenses and some of the air freight cost and legal cost.

C. Srihari: So if I get it correct, it is Rs.30 crores for the quarter, predominantly on regulatory expenses?

V. Suresh: No, no, Rs.32 crores is for the nine months period, Rs.6 crores is for the quarter.

C. Srihari: What is the corresponding figure for Q2?

V. Suresh: Q2, I do not have the figure at this point of time. Can we take this offline?

C. Srihari: Yeah. My colleague would like to ask one question.

Participant: The growth on domestic front, it has some impediment in terms of product availability. Can you please be more elaborate on that – is it APIs or what exactly is that?

Dr. Murtaza Khorakiwala: This is mainly for the emerging markets where because of the various regulatory situations that we are in and some of the changes that we are making in our quality system, that has taken a little bit of time and that has impacted the production to an extent, and that is as a result of the changeover that the slight change that we are making in our quality operation so that has resulted in transition. And I think going forward that should get streamlined in terms of product availability.

Participant: Should we construe that it is at API level within your facilities or?

Dr. Murtaza Khorakiwala: Yeah, this is our facilities at API and Formulations.

Moderator: Thank you. The next question is from the line of Saravanan Viswanathan from Unify Capital. Please go ahead.

S Viswanathan: In terms of R&D spending for the first nine months we seem to have done around close to Rs.340 crores. Want to know what would be the spending in FY15?

Dr. Murtaza Khorakiwala: I think we can provide some indication of that at the end of the year in our next call.

S Viswanathan: So in Q4 we could see a similar spending as of Q3; Q3 I think we have done close to Rs.115 crores?

Dr. Murtaza Khorakiwala: That is right.

S Viswanathan: And my second question, the US business quarterly run rate subject to currency movements, could we expect Rs.200 crores of business every quarter till the issues are resolved?

Dr. Murtaza Khorakiwala: So what is the last quarter of the sale US business around 40 million impact will be there of Chikalthana.

S Viswanathan: So the remaining would be the run rate for us till we get the issues resolved?

Dr. Murtaza Khorakiwala: That is right.

S Viswanathan: You have given India and emerging markets business together. So out of the Rs.981 crores for the nine months, how much is India business, and out of Rs.327 crores for the quarter, how much is India business? And also like to know whether in the India business do we expect to grow in line with the market next year?

V. Suresh: The India business number is about Rs.255 crores in the current quarter.

Dr. Murtaza Khorakiwala: And we expect going forward the India business will grow at least as fast as the market.

- S Viswanathan:** Could I have the numbers for the first nine months if it is available?
- V. Suresh:** Rs.768 crores for the first nine months.
- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Sir, in the opening remarks that you had mentioned we have 53 pending ANDAs. Is it possible to break them out in terms of how many are pending from Shendra, Waluj and Chikalthana?
- Dr. Murtaza Khorakiwala:** Of the 53 pending ANDAs, 43 are from Waluj and Chikalthana, the others are from Shendra and the other facilities that we have, Morton Grove.
- Dheeresh Pathak:** Shendra would be half of that out of 10 ANDAs remaining?
- Dr. Murtaza Khorakiwala:** Yeah, more than that.
- Dheeresh Pathak:** In terms of the aging profile of these ANDAs, how many would be more than 2 years old?
- Dr. Murtaza Khorakiwala:** Out of these 53 pending ANDAs, 30 ANDAs have been filed in the last year or in the current year.
- Dheeresh Pathak:** Out of 10 ANDAs from Shendra and 10 ANDAs excluding Waluj and Chikalthana, how many would be two years old?
- Dr. Murtaza Khorakiwala:** All of them are either in the last year or current year.
- Dheeresh Pathak:** Is there a possibility of a site transfer for Toprol to Shendra, the Shendra have the manufacturing capability to make Toprol?
- Dr. Murtaza Khorakiwala:** That is one backup plan that we are considering. So we are making the requisite infrastructure that is there in our Shendra facility, but that would only happen maybe in 2015 and '16, one could see some revival of business.
- Dheeresh Pathak:** Shendra is Solid Oral Dosage facility?
- Dr. Murtaza Khorakiwala:** Currently, we have a liquid facility and an injectable facility and we are expanding our existing Solid Oral facility.
- Dheeresh Pathak:** When the import alert was released, at that time I think it was mentioned that Chikalthana had FY13 sales of \$230 million, and I think \$15 million is five product sales which are not being impacted, so then the balance would have been like \$215 million impact. Now if I annualize

the number that you said \$40 million per quarter, that is just \$160 million. So the \$160 million is not matching the \$215 million. So can you just help me bridge the two?

Dr. Murtaza Khorakiwala: Yes, some of it has been pricing impact of some of the other products that we have had. There has been price erosion to that extent. And additionally, the UK business of £9 million or £10 million which is also part of the Chikalthana business, has also got impacted because of the import alert from UK.

Moderator: Thank you. The next question is from the line of Rohit Gupta from Investment Point. Please go ahead.

Rohit Gupta: What turnover are we targeting from the Shendra plant?

Dr. Murtaza Khorakiwala: It is too early to say. We are yet to put up the facility which is currently in progress, so I do not expect any revenue in '14-15 from Shendra.

Moderator: Thank you. The next question is from the line of Gopal Madnani, an individual investor.

Gopal Mandani: I had a financial question regarding next quarter. When you said that you will lose about \$40 million in sales further, that means you will reduce the revenue by about Rs.240 crores. Can you help me with how much impact that will have on the bottom line for next quarter?

Dr. Murtaza Khorakiwala: I cannot give you any specific guidance on that.

Gopal Mandani: Can I say it will be a substantial impact to the net profit?

Dr. Murtaza Khorakiwala: Yes, there will be a significant impact; Rs.250 crores is almost 20% of our turnover for the current quarter.

Gopal Mandani: The second question I had was regarding Shendra itself, I believe it is a very modern facility, it is very large also. So, just a question that how come we are not thinking of consolidating facilities in Shendra? Why do we have nine plants in India? Would it not be more quality efficient and more manufacturing efficient, if you consolidate in one place as much as possible?

Dr. Murtaza Khorakiwala: As the organization has grown over time we have added facilities based on the requirement and that is how we are going about creating our new infrastructure. So we had our two facilities in Daman which are primarily catering to the UK market, that is in Bhimpore and Kadaiya, and L1 is our facility which we have had for the last 35-40 years, and then we have put up a new facility, we put up a facility in the EOU Waluj over the last 8-10 years and now we are putting up a new facility in Shendra to derisk some of the other facilities import alert that we have had in L1 and EOU, and also to take care of our future pipeline. Also, I think it is

good to have risk mitigation in place where if everything is one facility and it gets impacted, then a very significant part of the business may be affected. If you have a number of facilities, then flexibility is there in terms of the manufacturing of the product.

Gopal Mandani: That is clear, but maybe from 9 facilities to 3 facilities, because I think you are just spending too much effort in this quality exercise, you probably need lots of people because you have 9 facilities. Anyway, it was just a thought that it could be an opportunity to consolidate.

Dr. Murtaza Khorakiwala: Yeah, thank you for your suggestion.

Gopal Mandani: The next question was regarding dividend policy. I see that you are now declaring dividend Rs. 5 a quarter. Can I assume that there is a consistency to be expected in this dividend payment not in the amount but at least that you are attempting to create a dividend every quarter that you can share with shareholders?

Dr. Murtaza Khorakiwala: Yes, our effort will be to ensure as much as possible, we can have some level of dividend based on the financial.

Gopal Mandani: Last question was regarding the import letter from Chikalthana where they said that you need to do a global evaluation of all facilities in the last part of that letter. Is that the reason that FDA is not coming to inspect Shendra for example, or they are waiting for you to complete all facilities, is there some delay because of that?

Dr. Murtaza Khorakiwala: That could be possible and FDA is taking its own call on the timing of the inspection. It may very well be waiting for significant comfort level before they do come for an inspection.

Gopal Mandani: And these two exceptional items you had in this quarter in financials, Rs.80 crores foreign exchange gain and Rs.54 crores gain in exceptional item, you had Rs.170 crores some arbitration from France, so all of that I guess will not appear in the next quarter, it is a one-time item?

V. Suresh: Correct.

Moderator: Thank you. The next follow up question is from the line of Prakash Agarwal from CIMB.

Prakash Agarwal: First question, you had I think spoken about there is no filing for the quarter but the R&D spend is continuously going at 7-8%. So, what are the R&D spend attributed to?

Dr. Murtaza Khorakiwala: Filing is an output of the R&D activity and there is a lot of work that goes before the filing. So there is a continuous R&D work that is going on, work has not stopped, so, that is getting reflected in the R&D cost, and also the top line has fallen with respect to last year and therefore as a percentage the R&D cost has gone up.

Prakash Agarwal: When you say the work is going on, so do we expect the filing momentum to increase going forward?

Dr. Murtaza Khorakiwala: Yes, that is right. We have a facility in Shendra that is coming up, and this year we have already filed 7, we are filing 5 more in the quarter, and going forward also we will be increasing that momentum for the next year.

Prakash Agarwal: And given that your Injectables is what is awaiting approvals, so we would assume these filings are into Injectables only?

Dr. Murtaza Khorakiwala: These are consisting of all dosage forms that we have – We have Injectable, we have Liquid, we have Solid.

Prakash Agarwal: Would it be fair to say the kind of products that we have seen in the past with the limited competition niche kind of products, the filing current momentum as well as the future, the upcoming ones would be similar in nature at least to the extent that we have seen in the past or maybe better?

Dr. Murtaza Khorakiwala: Yes, as I mentioned at a strategic level, that is the orientation of our R&D policy and the new product development strategy and that would continue going forward.

Prakash Agarwal: I have two clarifications: One is when you said that we are working towards resolution towards '14 & '15 and reviving in '15 and '16. You meant the financial year or calendar year?

Dr. Murtaza Khorakiwala: Financial year.

Prakash Agarwal: So by fiscal '15 which is March '15, you expect these things to be resolved?

Dr. Murtaza Khorakiwala: That is our internal hope and expectation that we should be able to resolve most of the regulatory concerns in the next financial year, and some of the business we should be able to get back in '15-16.

Prakash Agarwal: Last question again, some clarification on the financials. Exceptional item to the tune of Rs.54 crores, if you could explain that and Rs.80 crores of FOREX also?

V. Suresh: This consists of two components. One is your arbitration income which is about Rs.170 crores and then following the regulatory actions we had to write off some of the stocks. So if you take that out the net amount is coming to about Rs.54 crores.

Prakash Agarwal: Inventory write-off, this is particularly to Chikalthana or Europe also, both...?

V. Suresh: Chikalthana, UK, everywhere, right, because we have had the regulatory actions.

- Prakash Agarwal:** It includes US write-off as well as....?
- V. Suresh:** Yeah, right.
- Prakash Agarwal:** Whatever was ready and stock we have to write off because we cannot ship it any more.
- V. Suresh:** That is right.
- Prakash Agarwal:** And what is this French arbitration about Rs.170 crores?
- V. Suresh:** We had made acquisition of our French subsidiary, and on that actually in terms of the representation there were some issues, so we went into arbitration and finally manage to win this award.
- Prakash Agarwal:** On this Europe piece, we have seen fairly good performance; if we exclude currency still we are flat despite having import alert. We have seen some growth in the base business and we have not seen any impact of the import alert yet or how should we see the business going forward?
- Dr. Murtaza Khorakiwala:** UK, Ireland and France, they are three different markets and each of them have had a different context. So as far as UK is concerned there has been an impact of the import alert, but at the same time we have launched four additional products in the nine months. And new product activity is going to continue in UK. And also the other fact is as far as UK is concerned it is easier to shift manufacturing to an alternate site compared to US. So there is a very active program of shifting manufacturing to alternate sites, third-parties. So that along with new products being introduced in the UK market we expect the UK business to come back to growth. Similarly, in Ireland also, we have launched a new product in the third quarter and that has seen a good uptake in the Irish market and that is why there is a good growth in the third quarter. As far as France is concerned we had one product which was our main product Art 50 which was not getting reimbursed by the French authorities but I think that we had taken it to the authorities and now it is getting reimbursed. So as a result of that the business is looking slightly better than what it was in the previous quarters. So there is a slight growth in the French business also.
- Prakash Agarwal:** One more clarification actually, this \$40 million impact that you spoke about, if we analyze it \$160 million, you said there is some price erosion. So would you confirm me to that this \$230 million minus \$15 million allows so \$215 million, around \$55 million worth value of there could be a price erosion in our products, and is that fair or we can see surprises there?
- Dr. Murtaza Khorakiwala:** I think it is a combination of price erosion and market share loss and renewed business dynamics in the US market. So that is getting reflected in the business, that is there.

- Prakash Agarwal:** Would you have a similar number for Waluj?
- Dr. Murtaza Khorakiwala:** There is no business from Waluj in US, other than one product that is being allowed, that is Enalapril.
- Prakash Agarwal:** That would be small?
- V. Suresh:** Yeah, small, not really big.
- Moderator:** Thank you. The next follow up question is from the line of Bino Pathiparampil from IIFL. Please go ahead.
- Bino Pathiparampil:** Just one quick question, how much is Shendra's current contribution in the US?
- Dr. Murtaza Khorakiwala:** As I said, we have not got US FDA inspection of Shendra facility. As of now there is no business.
- Bino Pathiparampil:** May I know the total cash and marketable securities on the book as of the end of nine months?
- V. Suresh:** It is about actually Rs.1800 crores including some liquid investment.
- Bino Pathiparampil:** Finally, could you find why the employee expense was lower in 3Q?
- V. Suresh:** Actually, it has gone up by Rs.10 crores if you compare the consolidated staff cost – Rs.176 crores for the current quarter Vs Rs.166 crores in the previous quarter.
- Moderator:** Thank you. The next follow up question is from the line of C. Srihari from PCS Securities. Please go ahead.
- C. Srihari:** You had a product recall cost of around Rs.114 crores in this quarter. So what is the outlook on this front going ahead?
- V. Suresh:** This is a complete recall cost.
- C. Srihari:** There would not be any recurrence going forward?
- Dr. Murtaza Khorakiwala:** Yeah, we do not expect this similar cost to happen in the next quarter.
- Moderator:** Thank you. The next question is from the line of Saravanan Viswanathan from Unify Capital. Please go ahead.

S Viswanathan: I do not know if I missed out, have you provided the CAPEX number for FY15? And I want to know for this CAPEX, what were your plan for – can we meet with internal accruals or would we be taking debt?

Dr. Murtaza Khorakiwala: As I mentioned we will be providing in our next annual investor conference call where we would provide some sense for the year '14 & '15.

S Viswanathan: Can I have the gross debt number as on December?

V. Suresh: Gross debt is around Rs.2,000 crores, including working capital facility.

S Viswanathan: And do we have any outstanding hedges?

V. Suresh: Zero.

Dr. Murtaza Khorakiwala: Okay, thank you very much for being with us during this investor call and I look forward to coming back to you at the end of the next quarter. Have a nice day and all the best.

Moderator: Thank you sir. Ladies and gentlemen on behalf of Wockhardt Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.