



Wockhardt Limited

Q4 & FY13 Results Conference Call Transcript May 28, 2013

Moderator Ladies and gentlemen good day and welcome to the Wockhardt Limited's Earnings Conference Call. As a reminder for the duration of this conference all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would now like to hand the conference over to Mr. Tushar Mistry, thank you and over to you, sir.

Tushar Mistry Thank you for joining us on this call to discuss Wockhardt's financial results for the year ended 31st March 2013. Today we have with us on this call Dr. Murtaza Khorakiwala – Managing Director; Mr. V Suresh – our Chief Financial Officer who has joined us recently. Before we begin I would like to clarify that in today's call we would like to primarily discuss Q4 & FY13 financial and operating performance. We have already shared in the last week's call our perspectives on the FDA issue. I now invite Dr. Murtaza Khorakiwala to provide key highlights of the Company's performance for the financial year 2012-13. We have a presentation covering our operating and financial performance which is available on the webcast for your reference. Now over to Dr. Murtaza Khorakiwala.

Dr. Murtaza Khorakiwala

I am very happy to welcome you to the investor call for Q4 2012-13 and the financial year that has gone by. I would be making a short presentation initially to cover the management and the financial highlights of our performance for the 4th quarter and the financial year and subsequently we can then open it up for question and answers.

So going to the presentation which is uploaded on the website, going to Slide #4 - In our organization today we have 7,900 associates employed in over 21 countries and we have direct business operations in India, in Europe, in UK and in Ireland and France and in USA and in Mexico. And in the other countries that we are present, like the other emerging markets, we are present primarily through partners and alliances and various indirect operations. If we look at our manufacturing organization, we have 12 manufacturing facilities globally out of which nine facilities are in India and one facility is in UK, one is in Ireland and one is in Chicago. From the research perspective we have three R&D centers globally, one in US, one in UK and one in India. India is the corporate research centre and in US and UK we have additional research facilities for high-quality, high-technology products where the capabilities are not available over here in India.

Moving on to Slide #8 to the financial results of '12-13 and Quarter 4 – The results discussed in the following slides have been normalized for all the previous

comparative periods. Nutrition business revenues and profits which we divested last year and R&D cost which we were capitalizing and now are expensing out.

Moving on to financial year '12-13 annual results going on to Slide #10 – The company has recorded a growth of 29% from the previous year and its revenues for the current year are at Rs. 5,610 crore versus Rs. 4,351 crore in the previous year, which is a 29% growth in sales.

Slide #11 – the EBITDA has grown by more than 60% and has moved up from Rs. 1,278 crore to Rs. 2,050 crore recording a 60% growth in our EBITDA.

Next Slide #12 – our adjusted PAT for the period '12-13 has moved up from Rs. 763 crore to Rs. 1,525 crore which is a growth of over 100% over the previous period.

Slide #13 – our R&D expenses compared to last year which were at 5.7% to sales for the current year stands at 6.7% and as we had mentioned in the earlier investor call, R&D is a core focus area for the organization and therefore the investment that we are making in R&D has increased by 1% over the previous period and that is an investment that the Company is making in the future growth and the pipeline of the business.

Going to Slide #14, the Balance Sheet that is there shows that if we look at our non-current liabilities, our long-term borrowings have reduced from Rs. 2,706 crore to 1,475 crore and our total non-current liability has moved from Rs. 2,892 crore to Rs. 1,545 crore.

Going to Slide #15 – these are some of the financial parameters compared to the last year. So if we see the first parameter which is enterprise value on the EBITDA which was 7.4 times last year, this year it is 10.8 times. The second ratio that is the net debt on equity which was 1.9 times last year, is now 0.4, so it has significantly reduced our net debt as a portion of our equity. Current ratio which was 1.3 is now at 1.9, our working capital to sales which was at 25% remains at 25%. Our debt servicing ratio which was 0.5 is now 2.1 that is, EBITDA on net debt, so it is far healthier at 2.1. Our return on capital employed which is EBIT on capital employed has moved from 23% to 41%. Our return on net worth which is PAT on net worth is at 55% versus 52% last year and our interest coverage ratio that is EBIT on the interest, has moved up from 4.3 to 9.3.

Going to Slide #16 – some of the major financial highlights which I thought would be important to share with you for the current year are the following. In the year 2012-13 we have generated free cash flow of over Rs. 1,400 crore. As we had also indicated in the last call we were making plans to exit from the CDR and we have now exited from the CDR process. The total debt that we have repaid during the current year is to the tune of approximately Rs. 1,800 crore and our net interest cost is at 4.6% on an annualized basis. Our net debt to equity now is at 0.35. So you would have seen that over the last year we have made a significant progress as an organization both in terms of our business performance as well as a stronger financial position of the Company with regards to debt and with regards to the cash flow that we have generated from the business. Similarly going to the Quarter 4 results of '12-13, on a quarterly basis our sales for the last Quarter 4 is at Rs. 1,486 crore compared to the same period in the last year which was at Rs. 1,176 crore showing a year-on-year growth of 26%.

Slide #19 – our EBITDA for the last quarter is Rs. 546 crore compared with Rs. 399 crore in the last year same period showing a growth of over 37% and EBITDA margin which was at 34% last year is now at 36.7%.

Moving on to the next Slide #20 – the adjusted PAT stands at Rs. 345 crore compared to Rs. 343 crore last year and our PAT margin is at 23.2% compared to 29% and for the current quarter the PAT is much lower than the earlier quarter primarily because of truing up of the taxation costs and interest costs which have come in the last quarter for the year.

Going on to some of the business highlights – Our US business has grown by 52% in the financial year and 30% in Dollar terms. During the year we have launched 12 new products, we have filed 20 ANDAs during the year and we have 46 ANDAs which are pending approval. Growth during the year was driven by a number of niche products and F-to-F opportunities. In 18 products in the US we are at number one position and 17 products we are at number two position.

Going to Slide #22 – our UK business has grown by more than 24% in Rupee terms and 8% in Pound terms against last year, against a pharmaceutical market in UK which is growing at 1.6%. During the year we have had 13 new product launches of which two have been day one launches and we have had 16 new products filings in the last year. We are the number three generic company in UK and we are number two in the hospital segment.

As far as the Irish operations are concerned, our growth in Ireland is at 13% in Rupee terms and 7% in Euro terms and we continue to be the largest generic player with 30% market share and during the year we have launched 25 new products.

Our emerging market business including India has grown at 12%, the India business of which has grown by 8% and the restructuring of the Indian sales force has been completed. We have launched during the year 21 new products and rest of the world operations grew by more than 24%. We also commenced our operations in Mexico. Therefore if you see the performance of the company over the last year and over the last 8 to 12 quarters you would have noticed that we are consistently and sequentially growing on a quarter-to-quarter basis both in terms of sales as well as in terms of profitability and therefore we do deliver consistent profits on an ongoing basis and the reason why we are able to do so is because of our three pronged pillars of sustainable business performance. One is research where we have R&D which is a strategic core as an organization and where we are investing in developing new products, new technologies and new areas that will sustain the growth of the Company in the short-term, medium-term and the long-term. Our reach and access to various markets through our global sales and marketing organization we have in the US, UK, Ireland, India and the alliances that we have in the emerging markets and our high focus on operational excellence that ensures that we are efficient, we are well focused, we are effective and we have a strong management leadership in place to deliver on the performance. And I'm sure with this continued focus on these three pillars of performance, we will be able to deliver consistent growth in the years to come.

Again I would like to just reiterate that the investor call is primarily to discuss the financial results and performance of the Company of the 4th Quarter and the financial year and questions, issues related to the FDA have been answered in an investor call that was made last week and addressed by the Chairman and information of the same will be uploaded on the website and transcript of the same will be available. I am happy to now take questions, to take this forward.

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin question and answer session. Our first question is from Jigar Walia of OHM Group. Please go ahead.

Jigar Valia How many ANDAs are we planning to file this year-2014?

Dr. Murtaza Khorakiwala

Last year we filed 20 ANDAs and our plan for the current year is to file at least 20 ANDAs.

Jigar Valia But last year 20 we had around probably 12 from the Waluj plant, so this year 20 you are factoring from the non-Waluj plants?

Dr. Murtaza Khorakiwala

That will include both the plants. That is a combined total of the ANDAs that we will be filing as a Company from all our facilities that are there.

Jigar Walia Can you also provide what is the outstanding of the 46, how many ANDAs are pending from the L1 plant?

Dr. Murtaza Khorakiwala

We have clarified that in our earlier call last week; I do not have the exact number with me right now.

Jigar Walia I understand the outstanding preference shares would be less than Rs. 300 crores as on March 31st?

Dr. Murtaza Khorakiwala

That is right.

Jigar Walia And the cash split up and debt split up in India in INR and outside India, can we look at the standalone numbers and say that those would be related to cash and debt in within India and balance should be outside India?

Tushar Mistry Yes, you can take that way.

Moderator Our next question is from Parth Shah of ICICI Bank. Please go ahead.

Parth Shah My question is this R&D expenditure which you mentioned, is it charged to P&L or you capitalize the same, what is the policy of the company regarding this?

Dr. Murtaza Khorakiwala

We are now charging it to the P&L and expensing it out.

Parth Shah The entire amount?

Dr. Murtaza Khorakiwala

Yes.

Moderator Next question is from Subhrajit Sarkar of Nomura Securities. Please go ahead.

Subhrajit Sarkar My first question is do you expect revenues from Toprol XL to come down in the forthcoming years?

Dr. Murtaza Khorakiwala

I will just give you a perspective of what has happened so far and maybe that could provide you a sense of how we have responded to competition. In Metoprolol we had market share and that was there before Mylan and Dr. Reddy's entered the US market and over the last year they have entered the market and in spite of that our market share has not gone down but it has marginally gone up and we have been successful in keeping that market share, keeping our customers and we intend to do so going forward.

Subhrajit Sarkar Do you expect some price erosion due to more players in this market?

Dr. Murtaza Khorakiwala

Yes, that may happen from time to time, as and when there is competition but now that the two players have entered the market and it has stabilized, one does not expect any major changes right now but one cannot rule out the possibility, it can always happen.

Subhrajit Sarkar Do you expect some incremental revenues from niche products like Bromfed and Flonase, like Flonase especially because it has a nasal device attached to it?

Dr. Murtaza Khorakiwala

Yes, definitely we will grow I mean in all the products that we are there we are continuously growing and we will continue to do so in these products also.

Moderator Our next question is from Arvind Bothra of Bank of America. Please go ahead.

Arvind Bothra Just a question on the European market, how do we look at the European business from here on and also specifically giving color on what can be the incremental impact on France business going forward, how should we look at it?

Dr. Murtaza Khorakiwala

Our European business is now contributing around 24% of sales as an organization and we are in UK, Ireland and France. In UK we have a very strong position and we are the number two in the hospital segment, number three company in the overall generic market and we continue to do very well in the UK market. We have grown by more than double digits in the current year and when the pharma market is only growing by 1% to 1.5%, so I think we are consolidating our position in UK, we are remaining and growing stronger and UK will be the primary driver of our growth as far as the European market is concerned. We filed 16 products in '12-13 and launched around 13 products and going forward also I think that is the level of research, filing and and approval activity that we will be looking at in UK.

Coming to the other market that is the Irish market, Irish business that we have is consisting of two parts, one is the domestic market which is contributing around 35% to 40% of our Irish business turnover, then the other is the export market. The export market we are doing well and it is growing well. The Irish domestic business that is there, because of the various economic problems in Ireland, there is a significant reduction in the price and because of that the prices of various products

have reduced and there is a de-growth of the Irish domestic market of 4%. However, we have grown in the domestic market by 8%. So on the whole I feel that the Irish business is also doing well and it is growing in spite of a de-growth in the market and we are maintaining our market share of 30%. France, the third part of our piece in Europe is having a turnover of approximately €13 million and I think that is something where we do not expect any incremental business or income to come from. So I think for Europe our major growth drivers will be UK and Ireland and that is where you would continue to see new products being developed and new products being launched and business that is growing and doing well.

Arvind Bothra So you mentioned €13 million for France, 13 million for the quarter or for the full year?

Dr. Murtaza Khorakiwala

For the full year.

Arvind Bothra Just on the profitability of European operations, given our overall margins are reasonably high, would it be fair to assume that the European business generates mid teen kind of margins or they are not close to that number?

Dr. Murtaza Khorakiwala

Our margins are healthy in all the businesses that we are there. When we talk about EBITDA margin, so as an organization we have EBITDA margins of 35% and above and European operations I think as a whole if you put it together will not be too far behind.

Arvind Bothra The interest costs have gone up significantly for this year despite the loan being so low, I assume that there would be some one-off charges relating to the CDR, so on a normalized basis what can be the interest costs or interest rate that we can assume going ahead?

Dr. Murtaza Khorakiwala

If you see the interest cost in '12-13 compared to last year, our interest cost has gone down from Rs. 269 crore to Rs. 215 crore, that is, it has gone down by 20% and if we have a look at it for the last quarter it is at Rs. 60 crore because of some one-off of year-end rounding off interest expenses.

Arvind Bothra Last question on the tax rates, how we should look at it going forward, do we have still a large amount of past losses which would keep our tax rate below MAT rate?

V Suresh India piece is going to be on MAT and overall we have given a tax guidance of about 15%.

Moderator Our next question is from Bino Pathiparampil of IIFL. Please go ahead.

Bino Pathiparampil One on Toprol after Dr. Reddy's launch, have we seen any price erosion at all in the market?

Dr. Murtaza Khorakiwala

Yes, that is bound to happen because whenever new entrant enters the market that is the one of the ways by which they are able to get an access to a customer so obviously there was a price erosion but we had a strategy whereby we maintained our market share and we kept our customers and I think over the last few months or so the pricing has been stabilized and we continue to have a good market share in Metoprolol and that business is stable and we do not expect any significant change in that but as you know there can always be competition that is there and prices can change but as of now I think it is stable and we are fairly comfortable with the position that we have got .

Bino Pathiparampil Lamictal XL which you launched in the last quarter, was it from the Waluj facility which got impacted?

Dr. Murtaza Khorakiwala

Can we come back to you on that for specific products related questions?

Bino Pathiparampil What is this exceptional item of about Rs. 11 crore in the 4th Quarter?

Tushar Mistry That was relating to some France redundancy expenses and we had some redundancy in France, the restructuring in France continues actually to some extent. so this was some small cost that was incurred in this quarter.

Bino Pathiparampil So similar small cost can come next year also?

Tushar Mistry Some small costs may keep on happening.

Bino Pathiparampil Finally in the domestic market what is the latest you are seeing, there are mixed signals from other companies, we have also seen a like-to-like growth of only 10% now, any significant pickup in those growth rates that you see forward in FY14?

Dr. Murtaza Khorakiwala

No, I think we will continue to grow as the industry is growing and our India business which we had restructured last year I think now the different sales organizations are in place and they are moving ahead and we expect to grow as fast as the industry may be marginally better and that is what our expectation is.

Moderator Our next question is from Anand Bagaria of Finquest Securities. Please go ahead.

Anand Bagaria One question regarding the Toprol, what is the contribution in Q4?

Dr. Murtaza Khorakiwala

It contributes 12% of our sales for Q4.

Anand Bagaria And regarding the interest cost in the 4th Quarter, what is the one-off kind of interest expense included in interest costs?

V Suresh These are essentially CDR exit costs.

Anand Bagaria What was the amount if I can just get?

Tushar Mistry Actually you should look at it from a future perspective on the balance gross debt, you should look at it from the cost that we will have around 3% or so we should

have on the gross debt going ahead, depending on how the Libor moves because now we have mainly foreign debt, so that is how we should look at it.

Anand Bagaria Again, coming back to Toprol, what was the gross margins kind of picture for this 4th Quarter if you can give?

Dr. Murtaza Khorakiwala

Those kind of details I do not think it is appropriate.

Anand Bagaria It will be in the range kind of gross margins if you can put some light on that?

Dr. Murtaza Khorakiwala

I cannot give you specifically product related information. I think it is too confidential from a company point of view and it will not be in the interest of all of us.

Anand Bagaria The R&D expenditure has gone up by couple of percentage points in the 4th Quarter, so what kind of R&D expenditure we are looking forward?

Dr. Murtaza Khorakiwala

As you would have seen we have had 20 filings ANDA filings in the current year and compared to the earlier year where we had 12 or 13 filings. Similarly in UK also we have had 16 filings, there is a ramp up of the R&D activity that we are doing and as a result of that the R&D costs as a percentage of sales is increasing and would continue to increase by 0.5 to 1 basis

points in the current year also.

Moderator Our next question is from Sameer Baisiwala of Morgan Stanley. Please go ahead.

Sameer Baisiwala Is it possible to share what is the outlook for fiscal 14 or maybe perhaps guidance both for sales and the margins?

Dr. Murtaza Khorakiwala

We expect to not grow too much in the next year, maybe we would have a marginal growth in low single digit and as far as the top line is concerned taking into consideration the FDA issue that we have received last week so we expect to be marginally growing in top line and in terms of profitability I think our EBITDA margins would be affected to the extent a few percentage points because of the FDA related issue, it would go further down.

Sameer Baisiwala And when you say few percentage points, you're still looking at north of 30%?

Dr. Murtaza Khorakiwala

Yes as we see it today I think that is what we are looking at.

Sameer Baisiwala So it is between 30 to 35, somewhere around that equation?

Dr. Murtaza Khorakiwala

Yes, you could say that.

Sameer Baisiwala

What could be the possible impact of new pricing policy on Wockhardt, that is for domestic market?

Dr. Murtaza Khorakiwala

We have looked at our own products which are affected and net impact to the Company is not much, kind of balances itself out, the positive and negatives, so as of now there is no impact to the Company.

Sameer Baisiwala

Flonase if I'm not wrong I think you got the approval way back in January 12 and it has been almost say 1.5 years, our market share is still about 5% - what is holding us back in Flonase?

Dr. Murtaza Khorakiwala

I do not have specific information about product and market share, what is the status of that in the market, maybe it would be more appropriate if you would like to discuss that separately.

Moderator

Next question is from Jesal Shah of JM Financial. Please go ahead.

Jesal Shah

Your insulin business like last year I think it was Rs. 1 billion, half in domestic and half in exports, can you tell us what it is for FY13 and could you comment on this Mexican launch in terms of how do you look at that market?

Dr. Murtaza Khorakiwala

I think we are doing fairly well in terms of our insulin portfolio both in India and in the emerging markets and over the last year or so we have received approvals in quite a few of the Latin American markets including Brazil and Mexico and in the last six months we have set up a Mexican subsidiary of Wockhardt that is going to be based in Mexico and which is going to be looking after our LATAM operations primarily on the biosimilar insulin portfolio and in addition to that it will look at business in Mexico, Brazil and some of the other LATAM markets. So I think the insulin opportunity in LATAM is opening up and I think that would be a good growth engine for us in the current year.

Jesal Shah

Would you be able to comment in terms of what the absolute market size is for you and whether it is a tender business or is it like you have people on the field promoting the product?

Dr. Murtaza Khorakiwala

At a broad level I can tell you globally the insulin and its analogues is a \$17 billion market out of which \$10 billion approximately is from US, Europe is another \$3 billion or \$4 billion and the rest of the world and emerging markets are another \$3 billion - \$4 billion and in LATAM itself there are tendered products as well as there is a branded market which is there and we are going to be participating in both the markets, the tendered market as well as branded market where we are going to be having our own sales force and marketing these products and currently we are working on developing these products for US and Europe and we are in a clinical

trial and we expect in the next three or four years to have these products in the US and European markets.

Moderator Next question is from Prakash Agarwal of CIMB. Please go ahead.

Prakash Agarwal On the US business just wanted to check, is there any seasonality especially from the products like Bromfed and Flonase for the 4th Quarter?

Dr. Murtaza Khorakiwala

There is a mild seasonality, I do not know exactly, but I think, I don't have the exact number with me to give you a very accurate answer but I think by and large it is not having a significant impact because that is not the only product that we have in US, there is a whole portfolio of so many products so I think it kind of evens out at the end of the day.

Prakash Agarwal Just wanted to get some sense actually on the Q-o-Q increase of around \$10 million so given Toprol has come off a bit as you said there was some kind of price erosion and despite seasonality, would it be fair that large part of it would have come from launch of Lamotrigine?

Dr. Murtaza Khorakiwala

Yes, there have been a lot of products we have launched in the year '12-13 and during the year the products that we have launched obviously they are gaining market share, they are growing and also additional products that have been launched in Quarter 3 and Quarter 4. So I think it is a result of the new product activity, the new product launches that we have had during the year and that is responsible for the growth.

Prakash Agarwal And the second question on the utilization of cash, considering Fiscal '14 earnings profile, we would be net cash positive, how do we plan to use this cash?

Dr. Murtaza Khorakiwala

As of now we have not taken a point of view as to how we want to deploy that cash but I think as and when we decide what we want to do at the appropriate time I think we will share with you our plan **Prakash Agarwal** And lastly in this import alert again we have spent some 4 to 5 days now analyzing the issue, do we really think restoration of 80% of our lost sales in 6 to 9 months is really achievable, could you give us more comfort there please?

Dr. Murtaza Khorakiwala

I think whatever we have indicated in the last investor call on the same, I think the position has not changed with regards to that.

Moderator Our next question is from Mehul Sheth of Asit C Mehta Investments. Please go ahead.

Mehul Sheth Do you have any M&A activity or any acquisition planning for biosimilar products?

Dr. Murtaza Khorakiwala

No, we do not have such plans as of now.

Mehul Sheth

Can you give us some status on first-to-file for the Company?

Dr. Murtaza Khorakiwala

As I mentioned, as a broad strategy, when we are developing our ANDA portfolio, what we look at is two or three kind of products, one are the blockbuster products which are huge products and where if we are able to get 10 to 15% market share that itself is a good value proposition. Additionally we look at complex technology and niche products and generally when we're designing our portfolio we try to keep a balance of 50-50, so that we have enough of technology and niche products at the same time we have some high-value blockbuster products also.

Mehul Sheth

Are you targeting any particular segment?

Dr. Murtaza Khorakiwala

No we are not targeting any particular segment, we look at the product in the market and what is its market size and potential and the technology that is associated with developing that and on that basis we take a call, not on the kind of market it is because at the end of the day it is a generic product and it does not matter what the segment of the market is, as once it is generic, it is a generic.

Moderator

Our next question is from Nitin Gosar of Religare Investment. Please go ahead.

Nitin Gosar

Just wanted to understand the R&D related policy like it stands at 6.7% right now, incrementally it will be moving upwards of 7%, say for next two years if one has to take a number?

Dr. Murtaza Khorakiwala

Yes as I mentioned our R&D costs would go up in the year '13-14 compared to '12-13 and I believe it will go up by around approximately 0.5 to 1% points as a percentage to sales.

Nitin Gosar

On the geography wise EBITDA margin what I understand is you do not disclose the numbers but just to understand the packing order if you can help me understand geography wise how each country stands or maybe the block that you report, European block, US block how does this stand?

Dr. Murtaza Khorakiwala

The EBITDA margin for the organization is at around 35% and let me also share with you that our European operations and India operations are not too far away from that number and the balance additional contribution is coming from the US.

Nitin Gosar

Last question is with regard to hedging policy, I believe till date you are having a shorter duration hedging policy?

Dr. Murtaza Khorakiwala

No, we are not doing any hedging.

Moderator Our next question is from C Srihari of PCS Securities. Please go ahead.

C Srihari My first question pertains to the gross margins, the impact of a loss of \$100 million in the current fiscal, what is the likely impact on the gross margins of that factor and secondly how many F-to-F do you have currently and what is the kind of CAPEX plan you have for the current fiscal?

Dr. Murtaza Khorakiwala

I think it would be the same that which is there today - at the same level the gross margins would be there even for the additional products that are there in the \$100 million. We expect CAPEX of \$50-\$75 million for the coming year.

C Srihari How many F-to-Fs are in the pipeline?

Dr. Murtaza Khorakiwala

I specifically again cannot give that but as I said as a broad strategy we have a 50-50 way that we balance our portfolio between FTF and complex technology and niche products vis-à-vis the more vanilla generic and the blockbuster products.

C Srihari Does that mean that there are about 10 FTFs?

Dr. Murtaza Khorakiwala

It does not mean that.

C Srihari In the context of gross margins, your gross margins for fiscal 13 was around 69%, so the loss of \$100 million, what would be the impact on an overall basis?

Dr. Murtaza Khorakiwala

As a broad guidance of the organization in the earlier question that was there we expect the turnover of the Company for next year to have a marginal growth, so to be by and large stagnant with the marginal growth and we expect our EBITDA margins to fall down by two or three percentage points as a result of this effect.

C Srihari So you mean both at the EBITDA level as well as the gross margins level, the decline could be around 200 to 300 basis points?

Dr. Murtaza Khorakiwala

Yes, that is what we are expecting as of today.

Moderator We have a follow-up question from Jigar Walia of OHM Group. Please go ahead.

Jigar Walia Mylan has launched Comtan in US, you see any significant impact coming in from that front, they have got the approval rather?

Dr. Murtaza Khorakiwala

It is too early for me to say that, I would not really know specifically on that topic.

Jigar Walia In the last previous conference call for the FDA, Chairman did say that we have significant inventories for Comtan, Stalevo and Geodon which have been at US, would it also be for Lamictal?

Dr. Murtaza Khorakiwala

Again I do not know specifically about the inventory level in the US. I think we adequately, as a general policy, we like to have about 2 to 3 months of inventory in the US for our products, I think it would be by and large should be approximately that but I do not have any specific numbers for that right now.

Jigar Walia Generally, would it be fair to assume that post the 483 as a precautionary step we would have probably pushed most of our inventory to the US last month?

Dr. Murtaza Khorakiwala

No, I do not think we did that. I think we just continued our operations normally and whatever is the normal level of inventory it would be there.

Jigar Walia And the consultant that we would be appointing would be looking at all the plants or just the Waluj plant per se, or he would look at the Chikalthana which is also coming up for audit?

Dr. Murtaza Khorakiwala

Yes, we are currently in discussion with them and we are in the process of deciding what are the facilities and what are the areas that we would like to engage them, so there is no decision yet on our side, we are in discussion, so we can let you know once there is a more definite outcome to that.

Jigar Walia As far as the repayment of the balance debt is concerned would it involve any kind of distribution tax or something because the cash may be in another subsidiary while the debt may be in another subsidiary? Would that be an issue that we need to resolve for the repayment of the balance debt?

V Suresh The India debt is already paid off so what we have is only the working capital for which the current asset inventory is there.

Jigar Walia That should be only about Rs. 180 crore to Rs. 200 crore. The foreign debt which is concerned so there would not be any intent of paying off because what we have earned on the cash would be similar to the 4.6% that we are guiding for the balance debt?

Dr. Murtaza Khorakiwala

We are not looking to repay the foreign debt because we have got it at a good rate.

Jigar Walia But the cash also would also be earning a corresponding 3% to 4%, I am not sure what is the yield on our free cash?

Tushar Mistry No, that would not be the case.

Jigar Walia So our cash would be earning a lot less but we would still be holding on to the debt which is generally at an otherwise low-cost debt?

V Suresh That is correct.

Moderator Our next question is from C Srihari of PCS Securities. Please go ahead.

C Srihari I wanted to know the status of Ziprasidone, when we spoke last it was indicated that you have a 10% market share, so what is the status currently?

Dr. Murtaza Khorakiwala

I do not have the information with me right now but I think if you have access to IMS all our products and what is the market share and what is the competition market share all that information is available but I do not have that information right now with me.

Sri Srihari On the inventory front there has been a substantial increase, so under which head has it gone up sizably, is it on the work-in-process or finished goods front?

Dr. Murtaza Khorakiwala

This is the inventory that is primarily related to the product for the US market where there has been an increase over the last quarter.

Sri Srihari So it is predominantly finished goods?

Dr. Murtaza Khorakiwala

Yes, finished goods.

Moderator As there are no further questions from the participants, I would now like to hand the floor back to the Management for closing comments.

Dr. Murtaza Khorakiwala

I would like you to thank you for participating in the investor call and I was happy to take your questions and I would like to end and conclude by saying that we have finished of the year '12-13 with a fairly satisfactory performance on the financials as well as in terms of our business. The current overhang that we have of the FDA issue we believe we will resolve that soon and the current year '13-14 would be by and large flat but I'm sure that in the years to come by we will be able to get back to a good growth .

Moderator Thank you very much members of the Management. Ladies and gentlemen on behalf of Wockhardt Ltd. that concludes this conference.

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