

“Cadila Healthcare Ltd Q3FY13 Results Conference Call”

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MODERATORS **MR. PANKAJ PATEL – CHAIRMAN AND MANAGING DIRECTOR**
DR. SHARVIL PATEL – DEPUTY MANAGING DIRECTOR
DR. GANESH NAYAK – EXECUTIVE DIRECTOR, CADILA HEALTHCARE LIMITED
MR. NITIN PAREKH – CFO
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Moderator:

Ladies and gentlemen, good day and welcome to the Cadila Healthcare Q3FY13 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines 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 assistance during this conference, please signal the operator by pressing * followed by '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ganesh Nayak – Executive Director, Zydus Group. Thank you. And over to you sir.

Ganesh Nayak

Good afternoon and welcome to our post results teleconference for the third quarter of FY12-13. We have with us Mr. Pankaj Patel – Chairman and Managing Director; Dr. Sharvil Patel – Deputy Managing Director; Mr. Nitin Parekh – CFO and Mr. Vishal Gor – General Manager, Investor Relations.

First, let me share some of the highlights of the operations for the quarter. Our India Formulations business posted sales of Rs. 5699 million, up by 21%. Without Biochem, it was 18%. We launched over 15 new products including line extensions in India during the quarter of which 4 were for the first time in India. Our US business posted sales of Rs. 3920 million, up by 14% with the launch of two new products during the quarter. We filed 18 ANDA including 1 for injectable and 2 for **topical** products. (Topical products were filed for the first time filing with the US FDA), taking the total filings for the year till date that is for April to December to 30. We also received approval of 3 ANDAs during the quarter. For Brazil we filed 4 new product dossiers with ANVISA, taking the cumulative filings to 96. For Mexico we received the first product approval from the regulatory authority COFEPRIS for 2 new products during the quarter. Our Europe business grew by 26% and posted sales of Rs. 1119 million with the launch of 3 new products in France and 10 new products in Spain. We filed 12 new product dossiers and received approvals for 5 new dossiers for the European market during the quarter. With the launch of 3 new products including 2 on day 1, our Japan business posted sales of Rs. 180 million, up by 17% during the quarter. Exports to emerging markets grew by 32% and reported sales of Rs. 677 million. Zydus Wellness Limited posted sales of Rs. 1018 million, up by 28% and net profit of Rs. 226 million, up by 21%. During the quarter, Zydus Wellness Limited relaunched Everyuth Menz, launched new variants of Everyuth Face Washes and Scrubs and launched Nutrilite with Omega-3.

Our Animal Health business posted sales of Rs. 595 million, up by 19% backed by 4 new product launches in India.

Now, let me take you through the broad financial numbers. During the quarter on a consolidated basis, our total income from operations was up by 16% YoY to Rs. 16 billion. Earnings before interest, depreciation and tax was down by 2% Y o Y to Rs. 2551 million. Profit before tax was up by 0.4% to Rs. 1746 million. The net profit stood at Rs. 1029 million showing a de-growth of 31%. This was mainly because of higher tax provision. Thank you and we shall now start the Q&A session. Over to the coordinator for the Q&A.

Moderator: Thank you sir. We will now begin the question-and-answer session. The first question is from the line of Jiten Doshi from Enam AMC. Please go ahead.

Jiten Doshi This question is for the entire management team, Mr. Ganesh and Pankaj bhai and all of you. Pankaj, where are we missing the whole thing? Somewhere Cadila seems to have lost the plot over the last couple of quarters and every quarter you are quite hopeful of the next quarter bouncing back but somehow we are not seeing this happening. So I am sure you would have also done your internal assessment of where are you going wrong over the last couple of quarters, what can you guide us as to what went wrong in the last couple of quarters and what are you doing to really correct those strategy?

Pankaj Patel: First of all, I think if you see this quarter the numbers look down for three main reasons. The first reason is that our spend has increased mostly in the area of R&D, the special fees which we have to pay to US FDA for pending ANDAs and higher marketing spend which we have increased particularly in certain divisions including Zydus Wellness and some one-time expenditure we need to do in terms of some specific donation fee during the quarter. That all had an impact during this quarter of about Rs. 55 crores. Some of them would continue, some of them are not going to continue. The second reason is that gross margins are lower by about 1% and here the gross margin has been lower mainly because lack of new products in USA, which has impacted our margins in USA, also we have now the business mix in India which includes Biochem's business, which has comparatively lower margins than Cadila's margins. The joint ventures margins are also reducing. So that also has a negative impact. So all of that has basically impacted the gross margin. The third reason is that until last year we did not have the tax impact. So we started getting tax impact. So from the sales front, we are achieving our numbers and the issue is in the area of margins and spends. As our new product approvals have started coming now, we clearly see that once we start launching new products in the key market of US the picture would change. So what we clearly see is that in the year 2013, we expect to launch 22 new products in USA and one or two from Neshier on top of it. So that should basically help us to really improve the margin and continue doing that. We will continue to file more than 30 ANDAs even in 2013. So that would ensure that even in the future our pipeline would remain healthy. So that is broadly what I can say, the analysis of what are the numbers which is in front of you.

Jiten Doshi Pankaj bhai, I am asking you the broader question which is not getting answered and I am asking you for the last one or two calls. Really what has gone wrong because for the last many quarters either one division or the other, one part in the export, one of the other businesses in the FMCG side etc. do not seem to be doing well. So where are we wrong in our strategy? I am talking about the big picture and not the last quarter alone.

Pankaj Patel: I do not see that there is an issue on the strategy. We had an issue with the USFDA where we did not get approval for almost a year and a half. and I think that is what has impacted our margins significantly. otherwise our sales are growing, our numbers are being achieved, the only issue is that because we did not get new products our margin expansion which would have happened, while price erosion happens in the existing products, newer products get us

better margins, has not happened, overall you see the picture, the impact of that. So I do not see any issue from the strategy perspective. The issue is only from the perspective that we had no new products in USA, our key market and that this is now coming back in 2013, we should see a better number.

Jiten Doshi: I keep asking you every quarter, do you still stick to that \$3 billion goal of yours?

Pankaj Patel: That we have always done and we continue to stick to our goal of \$3 billion.

Jiten Doshi: So you are looking at that being achieved by 2016 March, right?

Pankaj Patel: Right.

Jiten Doshi: And so effectively you are saying that from these levels you are looking at the company growing (+30%) if you need to achieve that, right?

Pankaj Patel: Yes, as I explained in one of the meetings it is going to be a hockey stick. So it is not going to be like 30% every year, it is going to be a hockey stick.

Jiten Doshi: So it gets even more challenging. So as you go forward there could be some year in which you might have to record a 50% growth, right?

Pankaj Patel: I cannot give you a specific number but....

Jiten Doshi: I am not asking you a specific number, the logic.

Pankaj Patel: I do agree that we would have higher growth in the penultimate year.

Jiten Doshi: Sure, I am just saying that if you do 18% this year or 20% this year, then to achieve that number you might have to do 45% in one year in which it means that all businesses need to fire that sharply.

Pankaj Patel: Yes, not all business, some new business should contribute in that growth.

Jiten Doshi: And just one last question, we believe that if 2013 & 2012 are two years of consolidation, getting yourself out of all the problems, what do you really want to guide us in terms of the top line and bottom line, what is the sustainable growth that you are looking at from now on believing that the worst is behind you?

Pankaj Patel: We have a plan for achieving the 3 billion which is again divided into every year's target. So we have already finalized the budget for the next financial year and we clearly see that the gap is not big, so we have some small gap of about \$30-40 million against the objective which we had originally set up for 2013. So currently, we see that everything is on track and we should be able to make the milestone of \$3 billion achieved in FY2016.

- Jiten Doshi:** So what growth would you really look at in 2013-14?
- Pankaj Patel:** We do not give guidance. Our only broad guidance is that our goal is to achieve \$3 billion in 2015-16 and that is what we maintain.
- Jiten Doshi:** And you see a margin bounce back in the business now in terms of?
- Pankaj Patel:** When we launch a new product, we hope and we believe that margin should improve.
- Jiten Doshi:** So overall would you say that 2014 would be a turnaround year compared to 2012 & 2013, you are very confident about that?
- Pankaj Patel:** Yes.
- Jiten Doshi:** So can you say just this one more quarter of pain in March '13 or whatever?
- Pankaj Patel:** That is what we think at the most, for one more quarter pain might continue depending upon how many products we are able to launch in US market in this quarter but next quarter onwards we do not see any issue.
- Moderator:** Thank you. The next question is from the line of Manoj Garg from Edelweiss. Please go ahead.
- Manoj Garg:** Mr. Ganesh Nayak has made a remark in the opening that you have filed around 18 ANDAs and out of which one was for Injectable and two were for Topical. So do this topical means largely the transdermal patches?
- Pankaj Patel:** No, these are ointments and creams.
- Manoj Garg:** And has he indicated that we are first-to-file these products ?
- Pankaj Patel:** No, we said these are our first topical filings of creams and ointment.
- Manoj Garg:** And second thing basically just want to understand because in the last concall we have indicated that we are looking towards operating margins in the range of 19-20% and then the endeavor would be, every year we should inch up around 50-100 bps kind of margin expansion. So just want to understand your overall direction and guidance in terms of margins?
- Pankaj Patel:** You know that we have completed the program of PRISM 2 and we have certain targets to achieve the cost efficiencies in process. That itself should start seeing results in 2013, with improvement in margin and then going forward further. Couple of the new product launches and some key important product launches in the key markets like US should help us achieve further improvement in margin.

- Manoj Garg:** So we still believe that 50-100 bps kind of margin expansion on a year-on-year basis is still sustainable?
- Pankaj Patel:** Yes.
- Manoj Garg:** One of the reasons why the other expenditure has gone up so sharply. You have indicated that we have inducted certain kind of marketing campaign in Zydus Wellness or maybe some other marketing divisions. Now if we see the sequential increase in other expenditure excluding R&D, it is almost around 40 crores. While the sequential increase in the Zydus Wellness is almost at the flat level, so that means that typically this 40 crores incremental expenditure which is happening this quarter is more on the Zydus Cadila than on Zydus Wellness side.
- Pankaj Patel:** No, it is not only the marketing expenditure; R&D expenditure is part of it. As I explained to you that in overall expenditure increase would include additional cost which we spend on R&D, we also have higher marketing expenditure including something which is spent in Zydus Wellness and Zydus Wellness numbers are with you so you know what is it and also some one-time expenditure in terms of donation.
- Manoj Garg:** The quantum of donation which you have given in this quarter.
- Pankaj Patel:** I think Vishal can share with you separately.
- Manoj Garg:** And on the tax side, for the quarter we have made a tax provision of 36-37%. So was it exceptionally higher and what could be the sustainable tax rate going forward?
- Pankaj Patel:** 25-30%.
- Moderator:** Thank you. The next question is from the line of Kartik Mehta from ICICI Securities. Please go ahead.
- Kartik Mehta:** On the India business you said that excluding Biochem, you grew by about 18%, is that right?
- Pankaj Patel:** Yes.
- Kartik Mehta:** So in the base I think we had about 8 or 10 days of Biochem. So did Biochem actually not grow on a YoY basis at all?
- Vishal Gor:** When we say growth excluding Biochem that means from base also whatever little sales was reported in last year corresponding quarter has been removed to make the figures comparable. It is not that Biochem's numbers have gone down.
- Kartik Mehta:** But for the base we had only about 8-10 days of Biochem, right, so you would have removed that as well?
- Vishal Gor:** Yes.

- Kartik Mehta:** So on that 18% growth rate we have seen other companies actually report and also industry growth rate for the last two months and including what we see for January coming out, or can you comment if on the industry scenario you see any overall slowdown on broader basis?
- Ganesh Nayak:** What you are saying is right. If you look at the AWACS and the IMS data it shows lower growth rates for the last two-three months but if you see the growth of Zydus you will find that we are still in the range of 18-20%. Internally also we see the same thing happening. Coming to your larger question, broadly, for the industry I do not think we can comment on that but for Zydus at this point in time looking at the number of launches we have had in the last 8-9 months and the launches which we have in the next year we do not foresee ourselves coming to a lower growth area in the year 2013.
- Kartik Mehta:** On the US business, we had earlier stated that there would be one more product launch in FY13. Are we on track and in the opening remarks you also mentioned that there would be two products which would be launched in 2013 which would be from Neshier. Are these both going to be in the controlled substance space?
- Pankaj Patel:** First of all, one product which was to be launched from Neshier was launched but was launched in the end of last week of December so there is hardly any sale that was reported on that product in the quarter which has got ended. Next year we expect to launch two new products. One of them come from controlled substance basket, one of them is not from controlled substance.
- Kartik Mehta:** So is my understanding right that you will have four products by the end of the year?
- Pankaj Patel:** Yes.
- Kartik Mehta:** Of which there will be two of controlled substances and two...?
- Pankaj Patel:** Three will be controlled substance and one non-controlled substance.
- Kartik Mehta:** Would you be able to share the expected revenues, will these be at the same level before the plant went into the issue ?
- Pankaj Patel:** Kartik, you know we do not give guidance...
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Just to begin with can you tell me how many ANDAs do you now have pending after these filings and adjustments?
- Vishal Gor:** About 70 products are pending approval on oral side. And in total, including injectables, nasal and topical, everything put together there would be over 90 ANDAs which are pending approval.

Sonal Gupta: So 90 ANDAs in total pending approval including whatever you will contract manufacture also?

Vishal Gor: Yes.

Sonal Gupta: You are expecting a fairly sharp stream of approval to come through. So some of them are on the injectables side which you are supplying to your partners, do you see a strong growth there or how do you see the US business really shaping up for FY14 given the ...?

Pankaj Patel: I think most of the product approvals that we are expecting in the next year is on the oral side.

Sonal Gupta: Finally, on the tax rate front, do we see longer-term tax rate coming down? I know you said 25-30% on a sustainable basis. Any plans of any SEZ, etc. because the tax rate clearly has gone very high, right?

Nitin Parekh: Long-term we should come back to MAT.

Sonal Gupta: Finally, on the R&D spend side, how do you see the R&D spend for this year and next year?

Pankaj Patel: We expect R&D spend to be in the same numbers and not much increase in the next year.

Sonal Gupta: In absolute terms or?

Pankaj Patel: In terms of value.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: One clarification. The generic user fees you paid to US FDA and other expenses what will be the quantum there, 10-11 crores or will it be much higher there?

Pankaj Patel: Yes, your number is right.

Anubhav Agarwal: And just a clarification on the R&D from the previous question. You said it will remain same on the absolute amount or it is percentage of sale?

Pankaj Patel: On the absolute amount it should remain the same.

Anubhav Agarwal: Just one clarification, Pankaj bhai, you mentioned about Neshier approval. I was slightly confused, when you say 2013, do you mean calendar year 2013 or year ending March?

Pankaj Patel: Calendar year.

Anubhav Agarwal: Just one question, interest expense for you has increased very sharply from second quarter. For September quarter, adjusted for FOREX losses, it was around 27 crores. Now it is around 45 crores. What explains this kind of sharp increase?

Vishal Gor: Because of additional borrowing and also because of utilization of working capital facility from India-based banks in rupee terms compared to foreign currency loans and PCFC devaluation in the earlier quarter.

Anubhav Agarwal: So this interest rate should remain at this level going forward?

Vishal Gor: You should not read from quarter-to-quarter. Overall, I think we have stabilized at the same rate which we had in the previous year.

Anubhav Agarwal: What will be your debt right now?

Vishal Gor: 2800 crores

Anubhav Agarwal: How much has your debt increased?

Vishal Gor: 255 crores .

Anubhav Agarwal: And just one clarification, as you list in ANDA, now can you just give some clarity that is it spending at the FDA but there has been some fresh queries or have you done all from your side and are just waiting for response from the FDA?

Pankaj Patel: We are waiting for response from FDA.

Moderator: Thank you. The next question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Pankaj bhai, on US business, we really have not seen any significant approvals. Last quarter also you mentioned Prevacid ODT may come. When do we expect a big product approval say in US?

Pankaj Patel: As I mentioned in the call just a while back that we are expecting to launch about 20 plus products in the year 2013 and all these approvals are going to be there. We already have received certain approvals now and we are launching those products now but most of the approvals are expected in the year 2013 and also the launch will happen in 2013.

Girish Bakhru: But most of these products would already have existing 4-5 players in the market or would there be some...?

Pankaj Patel: Not all, there are some unique products in that.

Girish Bakhru: Any color on Lansoprazole ODT. When can we see the...?

- Pankaj Patel:** We do not generally say about specific products. It is difficult for us to comment specifically, but we expect many products to get approval and at least 20 plus launches in the year 2013.
- Girish Bakhru:** Can you comment whether the transdermal facility has already been inspected?
- Pankaj Patel:** Not yet, we are expecting maybe this quarter.
- Girish Bakhru:** And just how much of the FOREX losses now in the balance sheet?
- Vishal Gor:** In balance sheet hardly anything, less than Rs. 5 crores.
- Moderator:** Thank you. The next question is from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.
- Dhiresh Pathak:** I just want to better understand the margin decline. It was asked by an earlier participant as well. So one of the reasons mentioned was the higher R&D spend. Although it looks higher on a reported absolute number basis as a percentage of sales when I look at it for nine months there is not much change, it was 7%, last year it was 7.1-7.2% even this year. The main difference is coming from the gross margin which has declined leading to the decline in the margin front. So can you specifically mention where we are seeing this raw materials pressure, which geography are we seeing it in?
- Pankaj Patel:** No, as I mentioned to you that our US market where we have not any new product launch and so we see a margin reduction in the US market and that is where the difference you see. We have seen some lower margin coming from Brazil.
- Dhiresh Pathak:** But in the US, the revenues have not changed. They have in fact grown. It is just that you are saying that in some of the products the profitability has come down?
- Pankaj Patel:** It is a product mix issue. Though the overall numbers have not shrunk but it is a product mix issue where the products, where we increase the sale have not had good margins. Though the sale has improved, the comparable margins have actually reduced in the US market.
- Dhiresh Pathak:** So adjusted for FOREX and everything for this quarter EBITDA margins are now in that 15%. So unless we get some high margin product in the US, things will remain in this 15% margin range. Is that the right way to think?
- Pankaj Patel:** No, not really. Because in US what we sell include some products for which we have authorized generics where our margins are quite low, and that is where the margins are low and that is the reason why. Classical US margins are in the range of say 40-50% and the authorized generics margins are sub-20%. So obviously, overall margins come down. So as we launch more of our products, margins will again see improvement.
- Dhiresh Pathak:** But what I am saying is that something specifically has happened from the September quarter to December quarter. September quarter....

- Pankaj Patel:** One difference is that we also had some royalty income which is not there during this quarter.
- Vishal Gor:** As Mr. Pankaj Patel just explained, in this quarter we had certain non-recurring and discretionary spend, like the US FDA fees which we paid on the backlog of ANDAs plus certain donations which we did. And we had higher R&D expenses coming in because of higher number of ANDAs filed. We had in fact filed 18 ANDAs as shared by Mr. Ganesh Nayak and the marketing expenses which are to an extent discretionary, have been higher in this particular quarter, one of the reasons was higher spend in Zydus Wellness and a couple of other businesses where we have had marketing expenses.
- Dhiresh Pathak:** But Zydus Wellness margins are where they were last quarter. In fact, they have improved.
- Vishal Gor:** Let me complete first. So what we are saying is if you are looking at the QoQ expenses number or QoQ EBITDA margin then our suggestion would be to look at YoY because even though the sales number QoQ might not have changed dramatically, the business mix has changed because we have lower sales coming in from India business in third quarter compared to second quarter. So the business mix changes and that changes the cost component and the EBITDA margins. So if you compare YoY margins then the margins have declined because of certain one-off kind of expenses which I just explained. If you exclude them then the reduction in margin would be comparatively less. So R&D expenses as such we look at those expenses on yearly basis, not on particular quarter basis because QoQ there could be fluctuations because of fluctuation in the number of filings. And certain one-off expenses like donation and other expenses would not be there in the times to come. So as shared by Pankaj bhai, the sustainable margins going forward and our effort would be to take them upwards of 19-20%.
- Dhiresh Pathak:** I will take it offline. I am still not able to fully understand.
- Moderator:** Thank you. The next question is from the line of Bino Pathiparampil from IIFL. Please go ahead.
- Bino Pathiparampil:** Following up on US, of the 20 plus products in CY13 that you expect, how many are your own and how many would be contract manufacturing?
- Pankaj Patel:** We are talking about 20 plus products we will launch next year and they are all going to be our products, we are not talking about contract manufactured products.
- Bino Pathiparampil:** Next year CY13 that is what you mean right?
- Pankaj Patel:** Yes.
- Bino Pathiparampil:** And how many of them would be injectables and how many would be orals?
- Pankaj Patel:** All orals.
- Bino Pathiparampil:** What was the product that you launched from Nesher in December?

Pankaj Patel: That was Oxycodone.

Bino Pathiparampil: And in the two that you expect in CY13 from Nesher does it include Toprol as well?

Pankaj Patel: No.

Moderator: Thank you. The next question is from the line of Vivek Agarwal from MP Advisors. Please go ahead.

Vivek Agarwal: How many filings have you filed for the transdermal products in US and when are you expecting to launch any transdermal in US?

Pankaj Patel: We have filed 2 transdermal products up till now and we expect to launch our first product in FY14.

Vivek Agarwal: One question on Biochem. Is there any improvement in margins of Biochem?

Pankaj Patel: There is improvement in margins of Biochem and also there is a significant growth happening there. So, we clearly see that our strategy is moving and panning out and I think time will tell you how and which way as an organization we are benefited because of this acquisition.

Vivek Agarwal: One more question on Brazil, your Brazil sales are consistently down in the last quarter and this quarter also. So what is the reason and when do you expect the Brazil sales to come?

Ganesh Nayak: Brazil, because of this ANVISA strike, we had a problem in the previous quarter but the backlog was so much that even in this quarter we could not get the benefit of that....

Vivek Agarwal: From the next quarter you are expecting the Brazil sales to get normal?

Ganesh Nayak: Yes.

Moderator: Thank you. The next question is from the line of HR Gala from Quest Investment. Please go ahead.

HR Gala: I wanted to know that since R&D spend has increased in this year, what is the reason for increase in the tax rate to as high as 36% in this quarter?

Pankaj Patel: I think it is much complex, I can only say that we have several companies and several subsidiaries and the tax of AMT is applicable now in the subsidiaries where we have full tax exemption. I think you can take up offline with Vishal, he can explain it to you.

HR Gala: I can talk to Vishal that is fine. My second question is as far as current year is concerned it looks certain that there will be earnings degrowth. Do you subscribe to that at the net level, consolidated there will be?

Pankaj Patel: Yes.

HR Gala: The only worry is that if our margin does not pick up the way we are expecting even while we will deliver the top-line in the years to come how do you see the margin expanding? Now, as far as US launches are concerned, all hurdles are over. That means the moment we get ANDA approval we will be able to launch our own products from our facility.

Pankaj Patel: Yes. We have invested a lot in building capabilities and capacities to make sure that when the product approvals are in place we are able to launch the product. That would start showing in the result. And once our product approval numbers will start kicking-in in terms of launches, you will see the margin expansion happening because I think we had good margins in the US and since we did not have new approval and we had to basically do that with other products the ultimate number we achieve as far as top-line is concerned, our US margin has eroded where you see margin difference and I think that will neutralize once we launch the new products. **HR Gala:** One of the remarks which you made initially was pertaining to lower margin in the joint ventures. Now we have got several joint ventures like, Nycomed, Hospira, Bayer and Abbott, etc. So in which particular JV are we seeing the margin pressure?

Ganesh Nayak: Hospira because of the Docetaxel...

HR Gala: Do you expect that to continue or do you think ...?

Pankaj Patel: Yes, that is what Hospira has indicated.

Moderator: Thank you. The next question is from the line of Bhavin Shah from Dolat Capital. Please go ahead.

Bhavin Shah: Pankaj bhai, you mentioned approval of transdermal block by probably in the last quarter beginning of next year. Do you still remain confident of one launch happening in CY13?

Pankaj Patel: Yes, our inspection should happen this quarter hopefully and product launch would happen in the FY14.

Bhavin Shah: Any Abbott supplies that would commence in quarters down the line? We have seen some miniscule supplies happening in this quarter. Just wanted a clarification on that.

Pankaj Patel: Yes, it is going to ramp up now.

Bhavin Shah: And lastly, the implied margin scenario in US would basically mean that the existing products are facing a lot of pricing erosion?

Pankaj Patel: It is both the product mix issue and existing product price erosion. The existing product has seen price erosion and we had made that good with certain low margin authorized generic products and that is why overall margins have seen a shrinkage.

Bhavin Shah: And the CAPEX guidance for next year, what would that be?

Pankaj Patel: 650 crores.

Moderator: Thank you. The next question is from the line of Aashish Urganlawar from Spark Capital. Please go ahead.

Aashish Urganlawar: My questions are regarding Zydus Wellness. We have seen some market action from Zydus Wellness in terms of variants and advertising and stuff. Could you just guide us on how all the three key products are performing for us? The top-line has improved pretty much but what could you guide us as regards to the vision going ahead in terms of growth on top-line?

Pankaj Patel: Our vision is to achieve 500 crores in the FY14, so we will make that.

Aashish Urganlawar: And any details on how you are approaching different products, Everyuth, Sugar Free and Nutrilite?

Pankaj Patel: Overall, I think we are relaunching products, we are increasing distribution and we are also increasing advertising spend plus launching some new products.

Aashish Urganlawar: Can we say that Zydus Wellness would be back to that (+20%) growth mark on top-line? That would give a lot of comfort to investors as such. On the medium term can you guide us?

Pankaj Patel: If we do not do this then we cannot achieve the 500 crores number.

Aashish Urganlawar: FY14 is fine, but are we out of the problem that we had from competitive pressures and other things?

Pankaj Patel: Of course, because that is all one-time impact, and that impact is over, now, we are working on that new base.

Aashish Urganlawar: How is the Actilife performing in the marketplace? Because we have not had any comments from you on that.

Pankaj Patel: It has not been very successful yet.

Moderator: Thank you. The next question is from the line of Amit Shah from Prabhudas Lilladher. Please go ahead.

Amit Shah: Just a couple of questions. Number one is that I just happened to calculate the revenue of Biochem by the clue given by you, excluding Biochem revenues you gave the growth numbers. So it seems in the first nine months the revenue of Biochem are around 115 crores. Is that understanding right?

Vishal Gor: Can you leave the calculation and working questions later as our senior management team is here?

Amit Shah: No problem, I will get in touch with you.

Vishal Gor: Calculation related questions I can explain the working on that later.

Amit Shah: Sure, but want to understand is there any significant decline in the revenue from Biochem since you acquired it?

Pankaj Patel: I think your understanding maybe wrong that is why the wrong calculation Vishal can explain you, it is not the case.

Amit Shah: And the second question is you just mentioned that there is a QoQ increase in interest cost quite substantially. And you just mentioned that it will again go back to that 27-28 crores level. So what would lead to that? Why would that happen?

Nitin Parekh: As I said it is a utilization in a particular quarter in terms of rupee versus foreign exchange mix. Also, there was additional borrowing to meet the CAPEX requirement in the quarter. Also, the Hospira dividend which is normally received at the point of time we have not received the same for some reason, we will be receiving that which will allow us to reduce our debt or meet our future requirements.

Moderator: Thank you. The next question is from the line of Rahul Sharma from Karvy Stock. Please go ahead.

Rahul Sharma: Just wanted to know how would you revert to what type of growth in Brazil and do you see any more products coming in under the government support program which is there, are we going to be impacted by the same?

Ganesh Nayak: Government support?

Rahul Sharma: The PharmAsia program which is there.

Ganesh Nayak: No, we are not expecting any inputs from there but otherwise our growth in Brazil definitely should be in the range of 20% plus for 2013.

Rahul Sharma: But this will be on the back of what? Because market growth rates is going to be around 10-15%. So...

Ganesh Nayak: One is the base because in 2012 we had a lot of challenges in terms of the supply of products. One is the controlled substances and the other is the ANVISA strike. And second is we are expecting some product approvals too.

Rahul Sharma: Any number on how many products would be launched?

Ganesh Nayak: No, because with ANVISA we are not as sure as we are with the other agencies. So I would not hazard a guess on that front.

Rahul Sharma: And how are we placed in the branded generic and the generic market, what is the revenue mix?

Ganesh Nayak: In terms of percentages, 65 is branded, 35 is Generics but going forward this number is going to change because our Generics business is growing more rapidly than the branded.

Rahul Sharma: How many products are there in the US basket which you are marketing currently?

Ganesh Nayak: 47.

Rahul Sharma: Another thing, what about the hedges? What are the hedges that we have, forward covers?

Vishal Gor: No forward cover now.

Rahul Sharma: It is all open now?

Vishal Gor: Yes.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

Nitin Agarwal: One is, in the past, our JV which have been extremely profitable businesses, have been a big contributor in terms of boosting our profits for us. We have had the Nycomed thing which we replaced successfully with Hospira one. Going forward we are seeing pressures really coming through now on the Docetaxel. Are there any other levers which are there to compensate for this JV profitability?

Pankaj Patel: First of all, I have not fully understood your question but if I understood correctly, we do not expect many new products as big as what we are facing challenge in the JV. So that way we do not see that we can bridge that gap. But that gap has to be bridged by the businesses which we are doing in Cadila.

Nitin Agarwal: What I mean is the JV, they were fairly profitable businesses, and if they were to go down in proportion, I think the other parts of the business have to compensate so much more to really make up for the shortfall in the JV profitability?

Pankaj Patel: Absolutely right.

Nitin Agarwal: And other thing on a broader level, as a strategy, probably, before it was the most diversified business, in a sense of we try to do OTC, Animal Health, we are there across all the geographies. Is the diversification really creating some structural issues in terms of managing

cost, because we seem to be doing fine in the top-line front, is the overhead cost and the margins actually seem to be creating problems for us as far as the profitability is concerned?

Pankaj Patel: I think you should understand that we have the \$3 billion number and we have to invest to make sure that we achieve that number and that requires a lot of efforts, not only in terms of manufacturing capacity expansion but also in terms of building capability in the marketing and also in terms of R&D. And I think those investments are actually showing the increase in cost. But I think these are all basically done for the future because that is where we want to reach. So that is why you see the margin. I think once the numbers will come then you will see that benefit because if had these businesses been growing at 30% for example, you could have seen the numbers would have been different and that is what ultimately the expectation is.

Nitin Agarwal: When you talk about 3 billion number, geography wise apart from India and US, which are the other geographies where you see material contributions coming through?

Pankaj Patel: We have basically three buckets. One-third in India, one-third in US and one third in the rest of the markets. And among that the major markets would be Europe, Brazil and some of the consumer products businesses and some of the additional joint ventures.

Moderator: Thank you. The next question is from the line of Alok Dalal from BNP Paribas. Please go ahead.

Alok Dalal: Just to clarify on the CAPEX guidance, am I right to assume that the CAPEX will be 650 crores for next year as well?

Pankaj Patel: Calendar year we are talking about.

Alok Dalal: So FY14 CAPEX will also be 650 crores in line of FY13 CAPEX?

Pankaj Patel: Right.

Alok Dalal: What is the cash on hand? The debt you mentioned is 2800 crores.

Vishal Gor: 445 crores.

Alok Dalal: Just to understand the CAPEX again, where will this CAPEX be deployed?

Vishal Gor: It would mainly be in the areas of Formulations capacity expansion to meet the growing demands of US and other regulated markets. Some of the CAPEX in biologics and other R&D areas.

Alok Dalal: No, the impression was that after a high CAPEX of 650 crores in FY13 maybe the CAPEX levels will taper down going forward?

Pankaj Patel: You will see it happen in later years.

Moderator: Thank you. The next question is from the line of Kartik Mehta from ICICI Securities. Please go ahead.

Kartik Mehta: On the JVs can you share anything on the products that would be launched or in terms of the market size that you are looking at for the Bayer JV and also would you have any specifics that you can also share on the JV with Hospira in terms of the launches in US and Europe?

Pankaj Patel: As far as the JV is concerned, we are restricted by our partner to specifically give you any details. So we cannot give you some specific details as far as JV is concerned. However, if you have some very specific question you can take it up with Vishal, if he can some information we can provide you.

Kartik Mehta: On the JVs, is there any field force that we have added at least for what we are actually distributing in India or

Pankaj Patel: We have not added field force.

Moderator: Thank you. The next question is from the line of Monica Joshi from Avendus Securities. Please go ahead.

Monica Joshi: Pankaj bhai, if you could just clarify, you spoke about some authorized generics in the US. So if you could clarify on what these are and is this a strategy which you really like to pursue as you go along?

Pankaj Patel: Since we did not have new product approval coming in US we had authorized generic from Abbott. We had two authorized generic in the US.

Monica Joshi: Would you be able to name these products?

Pankaj Patel: Clarithromycin and Potassium Chloride.

Monica Joshi: Just secondly, some clarifications on both the CAPEX and the debt numbers. As we understood in the last call your CAPEX guidance for FY14 was 400 crores but now that seems to go to 650 crores. So have you envisaged any new plan which is adding the 250 crores?

Pankaj Patel: Yes, mainly because of the fact that we are getting some US approvals which require some specialized manufacturing additional capacity and also some subsidiary companies where we need to invest to basically boost up the capacity. So, both of these put together has increased our CAPEX.

Monica Joshi: So are we talking about any new Greenfield project over and above what we had known since three months back?

Pankaj Patel: No, we are not adding any new Greenfield project but it is basically for capacity expansion in certain areas like booster coated products and things like that.

- Monica Joshi:** And lastly on the debt side, as we understood last time around our net debt was about 2030-odd crores and now we seem to be about 2330 crores or 2350 crores. So is it right that we have an addition of 320 crores in the last three months?
- Nitin Parekh:** Yes. The gross debt has increased by about 255 crores and cash balance has gone down compared to September quarter. Yes, you are right that net debt has gone up by about 322 crores.
- Monica Joshi:** And do you think that this number will come down to the September level, let us say by March or are we going to be sticking at this level? In which case your interest expenses may not really come down from that 45-odd crores mark that you have seen in December?
- Nitin Parekh:** The debt level may not come down immediately but interest will come down because of the mix of rupee versus foreign currency loan that we have used and also the dividend amount that we expect to receive from our joint venture.
- Monica Joshi:** What is the rupee loan out of this total gross debt that you have and how much is the foreign currency?
- Vishal Gor:** About 985 crores worth of debt is in foreign currency.
- Moderator:** Thank you. The next question is from the line of Manish Jain from Axis Holdings. Please go ahead.
- Manish Jain:** Essentially, Pankaj, I wanted insights on the clinical trial program in US for NCEs and Biosimilars.
- Pankaj Patel:** I will start with Biosimilar. On the Biosimilar we have just begun the global clinical trials for first product . As far as NCE is concerned, most of the studies are still happening in India. We expect to start one study next year in USA.
- Manish Jain:** Nitin, one question for you just as a thumb rule if sales go up by 100 bucks next year, what is the increase in working capital?
- Nitin Parekh:** 20-25%.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints no further questions can be taken. I would now like to hand over the floor back to Mr. Ganesh Nayak for closing comments
- Ganesh Nayak:** Thank you very much and look forward to interacting with you again in the month of April for the last quarter of this financial year.
- Moderator:** Thank you. On behalf of Cadila Healthcare that concludes this conference. Thank you for joining us and you may now disconnect your lines.