



“Cadila Healthcare Limited’s Q3FY14 Earnings Conference Call”

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MANAGEMENT:

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Moderator: Ladies and gentlemen, good day and welcome to Cadila Healthcare Limited Post Results Conference Call. As a reminder, 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 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 Dr. Ganesh Nayak – Executive Director and COO of Cadila Healthcare Limited. Thank you. And over to you, sir.

Dr. Ganesh Nayak: A very good evening, and welcome to our post results teleconference for the third quarter of FY14. 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 – Senior General Manager, Investor Relations.

During the quarter gone by, on a consolidated basis, our total income from operations was up by 17% year-on-year to Rs.18.7 billion. Earnings before depreciation, interest and tax excluding the impact of exchange rate fluctuations was up by 47% year-on-year to Rs.3,401 million. Profit before tax excluding the impact of exchange rate fluctuations was up by 74% year-on-year to Rs.2,740 million. Net profit was up by 82% to Rs.1,860 million.

Now, let me share some of the highlights of the operations for the quarter. Our India Formulations business posted sales of Rs.5,883 million, up by 3.4%. We launched 12 new products including line extensions in India during the quarter, of which two were for the first time in India. Our business in the US posted sales of Rs.6,316 million, up by 61%. We launched Lansoprazole DR Capsules in the US market during the quarter. We filed 31 additional ANDAs with the US FDA including 3 for Injectable, 1 for Nasal, 4 for Topical and 2 for Transdermal, and we also received approvals for 3 Injectable products. This totals to 54 filings for the calendar year 2013. We filed our first ANDA from the Neshet facility in the US. In Brazil, we filed 9 dossiers with ANVISA taking the cumulative filings to 113. In Mexico, we launched 2 new products during the quarter, taking the cumulative number of launches to 6. During the quarter we made 8 filings with the Mexican Regulatory Authority (COFEPRIS) taking the cumulative filings to 36. Our business in Europe grew by 6% and posted sales of Rs.1,186 million with the launch of 2 products in France and 3 products in Spain. We received approvals of 15 new product dossiers for the European market. Exports to the emerging markets grew by 30% and registered sales of Rs.832 million on the back of 7 new product launches in different markets during the quarter.

Zydus Wellness posted sales of Rs.1034 million, up by 2%. Net profit of Zydus Wellness Limited grew by 19% to Rs.193 million. Our API business grew by 8% and posted sales of Rs.843 million during the quarter. Our Animal Health business posted sales of Rs.758 million, up by 27% backed by three new product launches in India.

On the R&D front, we initiated Phase-3 clinical trials for one of the monoclonal antibodies. We completed Phase-I clinical trials of both the novel biologics namely PEGEPO and

Rabimabs, and also preclinical studies for one of the products for global development. We added 2 more products to the Bio-similar products pipeline taking the cumulative number of such products under development to 21. We received the US FDA approval for initiating Phase-I clinical trials of ZYDPLA-1 – a novel, next generation orally active small molecule DPP-4 inhibitor to treat Type-2 diabetes. Thank you and we shall now start the Q&A session. Over to the coordinator for the Q&A.

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 Ashish Upganlawar from Elara Capital. Please go ahead.

Ashish Upganlawar: Just wanted to have your thoughts on Zydus Wellness. The performance on the top line has not been up to the mark. I would assume Sugar Free would have performed well and Nutrilite, Everyuth do not seem to do well. So anything that you can share on the performance as well as what we are doing on the ground to actually better the situation?

Pankaj Patel: On Zydus Wellness, we are currently undergoing a distribution restructuring exercise which is likely to be completed. Most of that part will be completed by this Q4. And what you see in terms of growth numbers is basically driven by the fact that we are consolidating distribution. As a result, there are going to be less number of distributors going forward, and due to this consolidation process, we expect that this quarter and Q1 of calendar year 2014 would show a lower growth rate. Our Sugar Free continues to do well. As and when we complete the distribution process, we should see the growth coming back. So that is broadly I can say about Zydus Wellness. I would request every participant that we can take main questions on Cadila Healthcare Limited first, because this conference call is for Cadila Healthcare, and at the end, we will take last five questions on Zydus Wellness.

Moderator: We have the next question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: This is regarding the US filing. We have seen a significant jump in the US filings. So what is the kind of filing run rate that you are looking at for 2014?

Pankaj Patel: We are looking at filing in excess of 40 in 2014.

Saion Mukherjee: You mentioned some topical filings also. When do you expect some of these approvals to come through?

Pankaj Patel: It all depends upon what FDA timeline will be there and I cannot predict, because if you see over the last 2-3 years, FDA average timeline for approval has been going up. We expect that post GDUFA, by October 2014, timeline should start coming down. So currently, it is difficult for us to say, but given the current run rate, we should expect approvals in 2015-16 timeframe.

- Saion Mukherjee:** This number of 40 filings which you are talking about and more than 50 filings we had this year, can you give us some indication as to the nature of these filings like how much is topical, injectable or the broad segments or the proportion of these filings in these segments?
- Pankaj Patel:** I can only say that these are mostly oral filings and there are also filings of topical. So the largest number is oral filings followed by the topical, transdermal, followed by injectable and then nasal. That is broadly I can say.. And out of the 54 products we filed, there are 19 with Para-4 certification, and there are potential few of them could be first-to-file, we do not know today, but there is a potential to first-to-file out of that.
- Saion Mukherjee:** Many of these filings are like old legacy products or most of the filings would be the ones where the patents are yet to expire?
- Pankaj Patel:** These are mixture of both. Because if we have filed Paragraph-4 you can understand that 19 of them as Para-4 filing it means patents have not expired, but not all the products are such. There are also products where there are no filings for generics though patents for those products have expired, and there are also products where there is limited competition.
- Saion Mukherjee:** My last question is regarding your Mesalamine franchise for the US market. When do you see approvals for Asacol HD and Lialda, are we on track for that? And my next question is can we share something more about the agreement with Actavis on Asacol HD?
- Pankaj Patel:** As far as approval of both these products are concerned we believe that it is on track as we hear from FDA today. We do not have significant deficiency by the FDA. So we should be okay. As far as Asacol HD is concerned we are moving forward, and we expect that in this calendar year, we should have the approval. The agreement what we have signed would allow us to launch the product by November 2015.
- Saion Mukherjee:** The competitive landscape, are you aware of any other filing at this stage on Asacol HD, and how long that opportunity you think can last?
- Pankaj Patel:** Currently we do not think that there is anybody else who has filed it because there would have been litigation if they had filed it. As we do not see any litigation on the landscape it seems that nobody has filed it.
- Saion Mukherjee:** And sir Lialda, you are the first to file?
- Pankaj Patel:** Yes.
- Moderator:** We have the next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: I think this quarter is one where it is a little mixed. There is some excitement and there are few complaints. So first I think if I can call it the first sign of turnaround if you allow me, then I think we are heading for better times if you agree with me.

Pankaj Patel: Yes.

Jiten Doshi: Pankaj bhai, you are more seasoned than all of us. So this 31 filings that we have seen that you have put in this last quarter, what could be the timeline for approval of these filings?

Pankaj Patel: What I was trying to say is that these filing would have approvals coming in as per the timeline. So if we continue filing like this we can definitely expect more than 20 approvals every year actually if the timelines are followed exactly then we should look at a particular period, all this 50 should get approval. So given that if we continue filing at this speed we should have that number of approvals coming forward. Currently, the FDA timeline is 36 months and considering that, we can expect 36 months period from now we could have approvals of all these 50+ we have filed.

Jiten Doshi: You have now hit a very crucial run rate of \$100 million. Can I say from here on this is sustainable and it will only accelerate?

Pankaj Patel: Yes.

Jiten Doshi: So are we looking at least a number of \$500-550 million for the next fiscal?

Pankaj Patel: Jiten bhai, we do not give guidance, so we would not like to give you a specific number, but what we can say is that 'yes' we are on the growth path and we will continue growing.

Jiten Doshi: And would you like to summarize to say 2013-14 the worst is over for all your businesses?

Pankaj Patel: Yes.

Jiten Doshi: So I think 2014-15 we will see our Consumer businesses back on growth track, US on track? And would you agree with us that all our JVs have also bottomed out now?

Pankaj Patel: Yes, JVs have bottomed out now and I think going forward we only see positive results in all the businesses.

Jiten Doshi: And domestic what is the sustainable growth rate, I am not asking you for a specific number for next year but what do you think because we were always leaders and we were doing very well, so do you believe that 15-20%... it is a very large band, that is a sustainable growth for next year because we have had a weak quarter now, there were a lot of industry issues also but as you go into the next year you have a lower base also. So if that effect counts can we take anywhere between 15% and 20% as a growth rate, I am sure you will try for that, right?

- Dr. Ganesh Nayak:** Our growth for this quarter, as I read out is 3.4% but if you look at it, in real terms, there have been three factors – One is the NLEM effect which is around 4% to our total sales. Even in the last quarter we had some resistance from the trade. Third one is we had two of our collaborator's products which we almost stopped selling, that was another 3%. So if we do a proper math and make an apple-to-apple comparison, the growth for this quarter is around 11%. Coming to your point about this lower base especially in the last 6 months of the calendar year 2013 your question about the growth being around 15-20%, the answer is, 'yes.'
- Moderator:** We have the next question from the line of Nishith Sanghvi from CIMB. Please go ahead.
- Nishith Sanghvi:** My question pertains to the US business. We have seen \$25 million delta Q-o-Q basically in the US. Can you just help us explain the composition of this basically where it is coming from – is it coming from an existing product, can you give more clarity on the same?
- Pankaj Patel:** It is basically some day one product and also some volume increase in the existing products and including Divalproex Sodium. So that is where we have seen this delta and we expect that to continue going forward as well.
- Nishith Sanghvi:** On the US business now probably in Cymbalta we have got the approval but we will be one of the later entrants. So how do you plan to capture market share there?
- Pankaj Patel:** That is a commercial strategy, I would not like to state about it, but whenever we launch we will get market share that we are confident.
- Nishith Sanghvi:** On your Japanese business, now we have plan to exit the business. #1, do we have any sales proceeds from the same? And #2 basically from FY15 we will not see any revenues from the Japanese business, can you...?
- Pankaj Patel:** For FY15 we will not see any revenues from Japanese business nor any losses from Japanese business. Whatever has to be done will be completed in FY14.
- Nishith Sanghvi:** Any sales proceeds, have we received any consideration in lieu of ...?
- Pankaj Patel:** We will get some proceeds but we will let you know once we receive.
- Nishith Sanghvi:** Last question on the Domestic business, is this probably the lowest growth we have seen in any quarter? And can we expect the fourth quarter as far as the growth is concerned to be materially better than third quarter given that trade?
- Dr. Ganesh Nayak:** Yes.
- Moderator:** Thank you. We have the next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan: Taking the question ahead from the previous speaker, there is a \$25 million delta from the US business, but if I am looking at your mix, this time typically the growth is driven by the US business and your Domestic business, which is typically the stronghold as far as your margins, is a bit tapered this year. Adjusting for the one-off, your EBITDA margins is about 18% if I am correct. So is it a fair assumption to say that your businesses primarily in the US is a lot more profitable now especially given the fact that you have not launched a number of products in the previous quarter, so what exactly is the dynamics driving the margins this quarter?

Pankaj Patel: It is a mix of several things. Some of the assumptions you are making are correct, but what I can say is that Domestic business has not de-grown, it has continued to do well. Only question is that the growth you do not see in terms of it because – Mr. Nayak just explained you how the growth difference is there – Domestic business continues to be good margin business. US, of course, there we see a little bit of improvement in margin because there are some price firming up happening in the US market and that is actually helping us to improve the margin plus we have some new products which we have launched which has a better margin. So all put together, we see the US margins also going upward. And the third point is that some of the businesses which were loss-making have reduced their losses or maybe coming to profit, as a result those businesses also have contributed positively. So what we see here is that this kind of 18% margin is just the beginning of ...going back to our original margin and we would see at least 1% jump on margin for the next financial year.

Sudarshan Padmanabhan: If I am correct, had your domestic business done much better, typically, we should be looking at margins higher than what you had delivered in this quarter, because that is typically much better margins?

Pankaj Patel: Definitely, margins will improve when this happens. The new NLEM price were announced somewhere in May 2013. For one full year the impact will be there and thereafter the base will become neutralized. So you can expect that we would see a better growth next quarter given that there is a base effect and also we have done action by introducing new products to grow the business, and going forward, we clearly see that we will go back to the original growth because if we take apple-to-apple, our growth is still better than the market, and we will continue doing better than the market.

Sudarshan Padmanabhan: Coming to the JV business, you had mentioned that your sales more or less has bottomed out but if I am looking at gradual ramp up and growth from here on and profitability from here on, are we looking at launches, and what is the kind of strategy that we have for the JV business going ahead?

Pankaj Patel: The point is that we have three important JVs contributing to the business. The first is joint venture with Hospira. So Hospira, exclusivity pressure has gone away now, and that is why we say it has bottomed out, and now additional products are in the pipeline which will be launched in FY15 onwards, there are about 12 products which are being planned to be launched through the JV, and that would increase the revenue. Second is our joint venture with Takeda. We have

already started supplying the API and those volumes and quantities are likely to go up. So we will see a positive growth in that business. Zydus business is on a growth path and should continue growing, So it will contribute to the business. All the JVs are going to go up from where they are today. So that is why we say that we see clearly, and this is basically driven by additional products and improving the volumes on the existing products.

Sudarshan Padmanabhan: Coming to the Transdermals, we are looking at launching a product probably in FY15 and more filings into the Transdermals and more of FTFs and filing, etc. So what is going to be the kind of spend that we are going to see on the R&D front probably in the next 2-3 years?

Pankaj Patel: R&D spend would remain flat for the next year; there will be a marginal increase of about 5% on R&D spend, otherwise it will remain flat.

Moderator: Thank you. We have the next question is from the line of Anubhav Agrawal from Credit Suisse. Please go ahead.

Anubhav Agrawal: On the Japanese business, you are exiting, can you just provide your rationale for doing it now – was that driven by new pricing regulations which was just announced? And secondly, on the same question how negative was your EBITDA in this business, how much are you going to benefit next year because of this exit?

Dr. Ganesh Nayak: There are a couple of reasons why we decided on the course that we have taken. One is we found that the revenue ramp up was not as per the plans which we had made when we entered into this market. The generic penetration was not even half of what we had envisaged. Second is this price cuts every two years was getting to be a little bit too much. And the third is that in terms of the need to scale up there because most of the companies have 300-400 reps. So, the investments which we needed to do in the next 3-5 years in light of our current situation and priorities we found that it would be best to exit this market. So it is a very calculated conscious decision which we have taken. And to the second part, it was a substantial investment. And as Pankajbhai mentioned to the earlier question, one of the reasons why our profits are going to be ramped up is many of the loss-making businesses are now becoming profitable or the losses are becoming less, and Japan is one of them.

Pankaj Patel: Just to add to what Mr. Nayak said, if you see the balance sheets of top generic pharmaceutical companies and look at their EBITDA level the largest companies have very-very low EBITDA margins, and we clearly realized that the way the market is behaving, and the way the regulations are, going forward, expanding the margin is going to be a challenge and that is the reason why strategically we decided that it is not worth investing time, effort and money, rather than put that money and effort into some other market and get significantly more return. So in the process of all that evaluation we did... and this is a continuous ongoing process in our organization. We strongly believe that any business in which we are there, we must see that in long term, we should generate significant revenues and profits. And when we see that the business do not offer than kind of opportunity in short term or long term then we would not

hesitate to take a very clear decision because that helps to actually consolidate and move the business forward.

Anubhav Agrawal: How much EBITDA negative was this business for 10%, so let us say Rs.(-5-6 crores) here?

Nitin Parekh: I will provide you offline.

Anubhav Agrawal: On the Divalproex, how much is your market share?

Pankaj Patel: Sorry, we cannot give you that specific information.

Anubhav Agrawal: A clarity on the tax rate. In the annual report last year, you had a cash tax rate of about 34% and in the notes to account what you had given for 9 months in this quarter is if I add back the tax which you had taken to the balance sheet, the cash tax rate is almost about 20% for the first 9 months. Just got confused, what is your actual cash tax rate? I mean when you end FY14 the 34% number that you had for the last year, is it likely to be 20% this year or still in 30%?

Nitin Parekh: Cash tax rate you can assume to be around 20% whereas tax in terms of P&L entry would be about 12-13%.

Anubhav Agrawal: Net at what rate you will be paying to the authorities will be about 20%?

Pankaj Patel: Yeah.

Anubhav Agrawal: What is the reason for it to drop substantially versus last year, from 34% to 20% – was there some very one-off in last year which is not there now?

Nitin Parekh: Merger of certain group companies have also helped us in terms of reduction of tax rate and AMT credit entitlement that we are taking for our Sikkim facility, that has also helped us in reducing our tax rate as reported.

Anubhav Agrawal: Merger, when you say, you merge Liva and other companies, were these loss making?

Nitin Parekh: Profit making companies which were paying maximum tax earlier.

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

Girish Bakhru: First question was on India. You had said the impact of Buscopan and Dulcolax is 3%, but I think in the last call you had mentioned overall impact is about Rs.90 crores. So more impact is yet to come?.

Nitin Parekh: That is the annual impact. This is the quarter's impact.

Girish Bakhru: On the US side, you had commented that this was a mix of new launches and increase in pricing in certain products. But just looking from an overall opportunity perspective, would products like Sirolimus, which you had got an approval for, will it be a big opportunity?

Pankaj Patel: It will be a good opportunity. We cannot say very big opportunity.

Girish Bakhru: You have yet to get an approval for the other strengths, right, are you first to file on that as well?

Pankaj Patel: No. We will get after six months of the exclusivity period.

Girish Bakhru: On Niaspan, you had commented that it is not a FY14 product but FY15. Any color on which part of FY15 would it appear -- early or mid?

Pankaj Patel: It depends upon exactly when we get approval in hand. So I am unable to say but I think second half of FY15 is what we can currently assume.

Girish Bakhru: And lastly, has Nesher added the fourth product in the quarter?

Pankaj Patel: Nesher has got approval of the fourth product during the quarter, and it is being launched in this quarter.

Girish Bakhru: And fifth one will again come in?

Pankaj Patel: Nesher also filed its first new ANDA this quarter.

Girish Bakhru: But there was another fifth product that would come in FY15, right?

Pankaj Patel: That will come in FY15, yes.

Moderator: Thank you. We have the next question from the line of Vivek Agrawal from Research Delta. Please go ahead.

Vivek Agrawal: My first question is related to Depakote ER. Have you taken any price increase in the product?

Nitin Parekh: No, we have not taken any price increase.

Vivek Agrawal: How will the competitive scenario be going forward for this product, any idea on that?

Pankaj Patel: There is competition but because of manufacturing constraints, the competition is limited.

Vivek Agrawal: My other question is related to Sirolimus. 1 mg product that you have tentative approval. If I am not wrong, Actavis or the Watson is the first-to-file on this product. And launch has been delayed. In that case launch of Cadila will also be delayed?

- Pankaj Patel:** No, no, they are exclusive on two strengths which they have not yet launched, yes, right. We are exclusive on the balance strength where we have launched the product.
- Vivek Agrawal:** In that case, if Actavis launch is delayed, so your launch will also be delayed, is that right?
- Pankaj Patel:** No, no, sorry, we have launched the product because we have only one strength approval, balance two strength approval is with Actavis, and Actavis has not launched those two strengths. The strengths, for which we have got approval, we have already launched. But as you know that this is a smaller volume strength compared to the other two strengths where Actavis has exclusivity.
- Vivek Agrawal:** Sir, I am just asking if the launch of Actavis is delayed... Actavis was supposed to launch on January 7 this year, in that case your launch will also be delayed on this particular product on the 1 mg or 2 mg?
- Pankaj Patel:** Yes, correct, because they will get 181 days, we will get 181 days subsequent to their launch.
- Dr. Ganesh Nayak:** Yeah, yeah, we will launch only after they launch.
- Vivek Agrawal:** My other question is on the Mesalamine franchise. You just mentioned that you will get approval for Asacol HD during FY14. Are you expecting any other strength of Mesalamine during FY14?
- Dr. Ganesh Nayak:** We said FY15 not '14.
- Pankaj Patel:** Yes, we expect at least one of them to be approved in calendar year '14. We cannot say more than that at this moment.
- Vivek Agrawal:** Can you give me some details on the total filing for transdermal, topical and nasal spray?
- Pankaj Patel:** I would request Vishal to provide you this information offline because I just do not have all the details in front of me.
- Moderator:** Thank you. We have the next question from the line of Bino Pathiparampil from IIFL. Please go ahead.
- Bino Pathiparampil:** A follow up on the US, this 25 million odd Q-o-Q increase you said there is some price increase built into it etc. Are these sustainable price increases or are they some one-off big price opportunity or contracts that you got?
- Pankaj Patel:** They are sustainable price increase and we do not see any further price reduction happening on some of the products where we got price increase. But please note that majority of this Q-o-Q increase comes from launch of new products, mainly Divalproex ER.

- Bino Pathiparampil:** And the injectable products for partners, have they started seeing material sales and where are they included?
- Dr. Ganesh Nayak:** We are supplying them now and they are launching the products, We just got approval during the quarter.
- Bino Pathiparampil:** They are included under what line item in the sales?
- Management:** It is along with the JVs and alliances. We now term it as 'JVs and Alliances.' So whatever sales we make to our partner for whichever market it sells, it is reported as 'alliance sales.'
- Bino Pathiparampil:** But despite that we have not seen any quarterly improvement in the JV sales number?
- Management:** The sales which we made to our partners is insignificant compared to the sale which is reported by the other JV.
- Bino Pathiparampil:** And finally, on one specific question on the FOREX loss given. There is Rs.22 crores FOREX loss which is given as we included in sales. Is that on account of dollar hedges that we have taken?
- Management:** Yes.
- Bino Pathiparampil:** So is it fair to adjust that directly to your US sales?
- Management:** Majority of that would be for US.
- Moderator:** We have the next question from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** If you go to see on the quarterly performance, majority of our formulation markets have actually underperformed in this quarter. Could you state any reasons for the same?
- Management:** Which markets are you referring to?
- Rahul Sharma:** If you look at, probably Brazil is one to state, French business has also grown by only 6%. Japan probably you are in the mode of exiting. Probably you could give clarity on Brazil and on France.
- Dr. Ganesh Nayak:** Brazil, our Generic business experienced intense competition there, and there was a reduction of prices, and also we did not get any approvals. So that is one reason why our Brazil business did not do well in the quarter.
- Rahul Sharma:** Are you expecting any fresh approvals in the current year or next year?

Dr. Ganesh Nayak: ANVISA is as unpredictable as the FDA is. If I have to be very honest with you I do not know.

Rahul Sharma: How many approvals pending now?

Dr. Ganesh Nayak: We have filed 113 totally, of which 9 dossiers we have filed in the last quarter. 73 are the pending approvals, and like it is happening in the US, if things go well we could get up to 7-10 approvals in the calendar year 2014.

Rahul Sharma: And on France?

Dr. Ganesh Nayak: In Europe what has happened is, in the represented segment of ours, there has been 7% de growth in France plus in the previous year we had one or two highs in terms of the product launches which we had. So it is a base effect coupled with this de growth in the market. We were driving towards making our French business profitable in the calendar year 2013, which incidentally we have and in the course of that we had to discontinue many low margin products. So because of that, the sales got affected in the last quarter, whereas on the bottom line it has benefitted us to a great extent.

Rahul Sharma: How are you looking at your cash tax rate for FY15 and FY16?

Nitin Parekh: 20%.

Rahul Sharma: And your normal P&L tax rate would be probably around 12-15%?

Nitin Parekh: Yes.

Moderator: Thank you. We have the next follow up question from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: You mentioned about exiting Japan. Especially in Western Europe like Spain where I understand the losses are continuing, are there any plans to rationalize some of the other markets where we are present?

Dr. Ganesh Nayak: At this point in time, no, and as Pankaj bhai mentioned earlier, progressively the losses in all these markets except for Japan are rapidly becoming lesser.

Saion Mukherjee: And sir on the other businesses like transdermal and vaccine, so those businesses would take some time to get profitable, right?

Dr. Ganesh Nayak: Yes.

Saion Mukherjee: So what is the kind of timeframe that you are looking at both for vaccine and transdermal?

Pankaj Patel: So transdermal, we expect in the next 24 months to become significant contributor to both top line and bottom line. As far as vaccine is concerned, it will take 3-5 years before it becomes significant contributor.

Saion Mukherjee: Any thoughts on acquisitions now at this stage?

Pankaj Patel: Currently, we are not planning any acquisition.

Moderator: Thank you. The next question is from the line of Krishna Prasad from Kotak. Please go ahead.

Krishna Prasad: Pankaj bhai, just a quick question, you mentioned we filed our first ANDA from Nesher. If you could tell us a bit about where are we on the resolution front – could we expect a resolution of the FDA issue at Nesher in FY15, is that the possible timeframe?

Pankaj Patel: To give you, Nesher had FDA inspection in the last quarter. It passed on through without any 483. We have a meeting come up with FDA and we are now basically requesting FDA for getting out of the Consent Decree. Previous to that, FDA has relaxed certain terms in the Consent Decree based on our performance. So going forward, we clearly see that we are on the path to resolving the FDA Consent Decree issue.

Krishna Prasad: And you would say that even for FY14 you would have had EBITDA losses at Nesher?

Pankaj Patel: Yes.

Krishna Prasad: And just additional question on your Bupropion 300 mg approval that you had got recently. Have we launched this product in the US? And any color on how do we see the approval playing out for '15?

Pankaj Patel: We are planning to launch maybe around April '14.

Krishna Prasad: Any reason why we had a delay here in terms of the launch?

Pankaj Patel: We are currently busy with launching some other products and we would like to launch it. This is not significantly a large opportunity, so we are prioritizing some other product launches.

Krishna Prasad: And Cymbalta launch would be expected in the fourth quarter?

Pankaj Patel: Yeah.

Moderator: Thank you. The next question is from the line of Chirag Talati from Espirito Santo. Please go ahead.

Chirag Talati: Firstly, in terms of your Injectable filings this year, is it fair to assume that most of these were still for partners or have you filed these on your own?

- Pankaj Patel:** This time we have filed all for our own.
- Chirag Talati:** And with regards to the Mesalamine market, how do you see the market shift happening between Asacol and Asacol HD given the life cycle management that is going on and potentially from Asacol HD to newer therapies?
- Pankaj Patel:** You do not see reduction in the size of the Asacol HD market. The Asacol brand extension is for plan Asacol which was 400 mg strength, for which there is change happening, but there is no change in HD's market.
- Chirag Talati:** But there is a new brand launch that is coming up for Asacol HD as well in 2015, if I am correct. Do you think that the potential of this market will remain materially the same by the time you launch or do you think there is a reason to believe that it could slightly lower down if a new product comes out?
- Pankaj Patel:** If the brand launches a follow-on product or lifecycle management product, yes, the market can come down; however, our agreement protects us to some extent to that launch, but not fully. So we understand that if they launch another brand against Asacol HD the market would reduce. It depends upon what exactly they come out with, we will be able to know how much of change we see.
- Chirag Talati:** And finally, again on Wellbutrin XL, can you give us some color in terms of how the market has kind of moved around after Teva's withdrawal of its own product earlier this year? And has there been any price benefit for the existing players? And is this a product where the market share scale up can be sticky or do you expect market share right from the start?
- Pankaj Patel:** Currently, our assessment is that this is not a big opportunity.
- Moderator:** Thank you. The next question is from the line of Hardik Bohra from Motilal Oswal. Please go ahead.
- Hardik Bohra:** One question on gross margin. Keeping in mind how our business mix is changing, I think about a year and a half ago, JVs was still an important contributor and gross margins were still above 65%, now that JVs have bottomed out, US is showing fast growth, we have exited one market which was loss making, can we say that in the next 2 years the gross margin can trace back to what it was 2 years ago?
- Dr. Ganesh Nayak:** Yes, we do expect that.
- Hardik Bohra:** Another question is on the ANDA. You mentioned that 31 odd ANDAs were filed in this particular quarter and 50 ANDAs are expected to be filed next year. I am just trying to understand does 50 ANDAs represent 50 products or is it that just a number of strength is higher, hence the number is higher?

Pankaj Patel: It is 50 products.

Hardik Bohra: You have indicated there is a loss of about Rs.33 crores on the cost of goods sold. Can you indicate what is the nature of this loss – whether it is realized, unrealized?

Management: Mostly, it is realized.

Moderator: Thank you. The next follow up question is from the line of Bino Pathiparampil from IIFL.

Bino Pathiparampil: Do you still have hedges outstanding?

Nitin Parekh: We have 26 million worth of plain forward contract with average price of 62 per dollar.

Bino Pathiparampil: So if rupee remains more or less here we should not see major losses going forward?

Nitin Parekh: Yes.

Moderator: Thank you. Participants, we will now take questions from Zydus Wellness. Please go ahead. We will take the next question from the line of Krishnanath Munde from Emkay Global. Please go ahead.

Krishnanath Munde: My question is on what is the growth outlook in Brazil business in terms of sales in '15 and '16?

Nitin Parekh: For the calendar year 2014 we are expecting growth to be in double-digits.

Moderator: Thank you. The next question is from the line of Siddharth Khandekar from ICICI Direct. Please go ahead.

Siddharth Khandekar: My question pertains to Zydus Healthcare only. This question is to Mr. Nayak. Actually, I missed out the reason for subdued Domestic Formulations growth. So could you just please repeat that?

Dr. Ganesh Nayak: There were three reasons which I gave for the growth of 3.4%. First was the NLEM, the impact of that, which is about 3%. The second is even in that quarter of October-November-December, we had some trade resistance. And the third was we have two of our collaborators products which we had stopped selling. So if you take that into account, on an apple-to-apple basis, our growth for this quarter actually comes to 10.5%.

Moderator: Thank you. The next question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Just on Lialda, is there any core date that we have got?

Pankaj Patel: Not yet.

Moderator: Thank you. The next question is from the line of Ashish Thakkar from Asian Market Securities. Please go ahead.

Ashish Thakkar: Sir, just wanted to know, like can we assume most of the filings that we have done is from Moraiya facility?

Pankaj Patel: It is from our new facility in SEZ Moraiya and also from our Baddi facility, and also from Nesher.

Ashish Thakkar: So at what capacity utilization this Moraiya facility would be running?

Pankaj Patel: Currently, we are running the facility at about 70%,

Ashish Thakkar: On this Toprol, any guidance?

Pankaj Patel: Maybe on 2nd or 3rd quarter we should have approval.

Moderator: Thank you. Participants, please note, we will now take questions only on Zydus Wellness. To take the next question from the line of Jinesh Gopani from Axis Mutual Fund. Please go ahead.

Amrita: This is Amrita from Axis Mutual Fund. If you could just explain what is the growth rate in your three brands – Sugar Free, Everyuth and Nutrilite?

Pankaj Patel: I think you know that we do not give specific details on any brand.

Amrita: Just some sort of indication, would Everyuth and Nutrilite have declined in double-digits or...?

Pankaj Patel: For the commercial reasons, we do not give the detail, but we can say that the growth is coming mainly from Sugar Free.

Amrita: How is the relaunch of Everyuth?

Pankaj Patel: Relaunch of Everyuth is getting momentum. We will see once we complete the distribution restructuring by end of this quarter then, we would see the real impact of that.

Amrita: And could you just explain this whole distribution reorganization, what are we trying to...?

Pankaj Patel: We are confident in order to go to the next level of distribution by which we should be able to expand our distribution reach significantly.

Amrita: And these were the non-chemist channels?

Pankaj Patel: Yes.

Amrita: Could you split it between let us say rural, urban or anything like that?

Pankaj Patel: Mostly urban, but also there will be rural footprint.

Amrita: We have actually seen a couple of quarters now with a very weak growth in these brands. So by when do you think this could actually turn, what is your expectation on that?

Pankaj Patel: Next quarter onwards we should see the growth coming back.

Amrita: From 1QFY15 you mean?

Pankaj Patel: Correct.

Moderator: Thank you. The next question is from the line of Hardik Bohra from Motilal Oswal Securities. Please go ahead.

Hardik Bohra: On Wellness, we had given our guidance of about Rs.500 crores to be achieved this year which we had also said that we might not do so. So is there any other long-term guidance that you are willing to share on this particular division?

Pankaj Patel: At this moment, not, we are still waiting for the quarter to get over and then we should be able to give you the guidance.

Hardik Bohra: Second, Wellness is on the promotional front. I remember, somewhere in the later part of FY13, it was indicated that we have discontinued our promotional activities given the increase in competitive landscape and we kind of resumed it. So now that the distribution channel has been reworked upon, will we be re spending on promotional activities or how will that part of the business work?

Pankaj Patel: We will definitely spend more on promotional activity, because we as a company strongly believe in one principle that profitable growth is always what we have to aim for, so it will be a balance between the both.

Hardik Bohra: On Cadila Healthcare again, can you tell me what is the gross debt figure and how much of that is foreign currency denominated?

Nitin Parekh: Gross debt is Rs.2,862 crores and net debt is Rs.2,400 crores. Foreign currency gross debt is about Rs.1,086 crores.

Hardik Bohra: Most of this is US-denominated?

Nitin Parekh: Yes.

- Hardik Bohra:** When do we plan to repay this?
- Nitin Parekh:** It is a long list, so I can give you offline.
- Moderator:** Thank you. Participants, due to time constraints, that was the last question. I now hand over the floor back to the management of Cadila Healthcare for closing comments. Please go ahead.
- Dr. Ganesh Nayak:** Thank you very much. It was nice interacting with all of you and look forward to interacting with you again in the month of May when we close the last quarter of this financial. Thank you very much and good night.
- Moderator** Thank you sir. Ladies and gentlemen, on behalf of Cadila Healthcare Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.