



“Cadila HealthCare Q1FY14 Post Results Conference Call”

August 08, 2013



MODERATORS **MR. PANKAJ PATEL – CHAIRMAN AND MANAGING DIRECTOR**
DR. GANESH NAYAK – EXECUTIVE DIRECTOR, CADILA HEALTHCARE LIMITED
MR. NITIN PARIKH – CFO
MR. VISHAL GOR – GENERAL INVESTOR RELATIONS.

Moderator: Ladies and gentlemen good day and welcome to the Cadila Healthcare Q1FY14 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 after the presentation concludes. Should you need 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 the conference over to Mr. Ganesh Nayak. Thank you and over to you Mr. Nayak.

Ganesh Nayak: Thank you. A very good morning to you and welcome to our post results teleconference for the first quarter of FY13-14. We have with us Mr. Pankaj Patel – our Chairman & Managing Director; Mr. Nitin Parekh – CFO and Vishal Gor – Senior 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. 6252 million, up by 8%. We launched over 20 new products including line extensions in India during the quarter, of which five were for the first time in India. Our US business posted sales of Rs. 3874 million, up by 8%. We filed 5 additional ANDAs with the US FDA including two for topical products and we also launched our first injectable product in the US market during this quarter. During the quarter, we commenced the commercial operations in the Mexican market with the launch of our first product. Four additional product dossiers were submitted to the Mexican regulatory authority which is the COFEPRIS and the approval was also received for two more products during this quarter taking the cumulative number of filings and approvals to 24 and 5 respectively.

Zydus Wellness Limited posted sales of Rs. 1150 million, up by 11% and the net profit grew by 68% to Rs. 227 million. Our API business posted sales of Rs. 858 million, up by 13%. With the launch of 15 new products, exports to emerging markets grew by 14% and registered sales of Rs. 822 million. We registered sales of Rs. 927 million in Europe, up by 9% and we also launched two new products in France and six new products in Spain during the quarter. We received the DCGI's permission to launch Lipaglyn in India. It is the first Glitazar to be approved in the world and the first new chemical entity discovered and developed indigenously by an Indian pharmaceutical company. We are going to launch this product in the month of September.

Now let me take you through the broad financial numbers. During the quarter on a consolidated basis, our gross sales were up by 6.4% year-on-year to Rs. 16.5 billion from Rs. 15.5 billion last year. Lower consolidated sales growth was mainly on account of lower sales growth in India and the US and a sales decline in Brazil. Sales in India was impacted by destocking of inventories by the stockiest due to the impending price revisions in the NLEM covered products. Sales growth in the US and Brazil were impacted by the lack of new product approvals during the quarter. Our

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net profit stood at Rs. 1956 million versus Rs. 1948 million last year. Thank you and we shall now start the Q&A session. Over to the coordinator for the Q&A.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-answer session. First question is from the line of Ashish Rathi from Emkay Global. Please go ahead.

Ashish Rathi: On the India business in particular, what is the kind of impact that you can expect from a full year basis on the NLEM and also what is the outlook going ahead from a full year perspective FY14 after this quarter?

Pankaj Patel: For the whole year, the impact of NLEM is about Rs. 90 crore. In the current quarter, there is an impact of destocking by stockiests in the market place as they stopped picking products somewhere from mid of May and in June and July also, the same situation continued. It seems that at this moment, there is some confusion in the market with respect to this 45 days and also with respect to trade margin. So currently, there is a kind of a disturbance in the Indian market and that is one of the reasons why there is destocking happening at the stockiest level.

Ashish Rathi: And sir outlook, when do you see this situation recovering for us?

Pankaj Patel: It is difficult to say because it is not in my hand. it is in the hand of third party and it is difficult to say at this moment when the situation would resolve. Optimistically, I would say it should get resolved in next few weeks or maximum up to the end of the quarter.

Ashish Rathi: Can we still look at around 15-17% kind of growth for this full year or more than that?

Pankaj Patel: It is difficult to say how long this impact will continue but that will definitely impact due to a) price reduction because of NLEM and b) because of this, destocking by stockiests. So both put together, it is difficult to give you a number at this moment. As soon as the situation becomes normal, we can come back to our normal growth level minus the NLEM impact, but it is difficult to say at this moment exactly whether we would have 15% growth or 17% growth or 14% growth.

Ashish Rathi: Second question is around Brazil business. We have seen some pain in the business for the last 4 quarters. Of course there was some ANVISA strike and all which happened previously and there was some lower growth, but now hopefully things are resolved on that front and secondly what is the reason why they are seeing this 20% kind of a decline in this quarter? No lack of product approvals, when do you see that situation resolving and what can we look going ahead for Brazil?

- Pankaj Patel:** It is very difficult to predict when actually the first approval will happen because we only hear delays and the agency does not give guidance or idea when they will be able to approve the product. On top of it, because of economic reason the interest rates in Brazil have gone up and in the process the stockiest have started destocking. So they usually used to keep inventory of approximately 75 to 90 days. Now they are bringing down to 45 days and also that has an impact on overall sales number and of course currency fluctuation is there in Brazil as well which is affecting import prices and also to some extent the competitiveness.
- Ashish Rathi:** So could you tell us what is the number of products which are filed and yet to be approved in Brazil for us?
- Vishal Gor:** So, for Brazil so far, we have filed 102 products with ANVISA. Of which, only 40 have been approved and 62 are pending approvals.
- Ashish Rathi:** And could you give me a split between how many generic-generic filings are there?
- Pankaj Patel:** Vishal can provide you offline, he does not have this now here. I would request Vishal to give you that offline.
- Moderator:** Thank you. Next question is from the line of Monika Joshi from Avendus Securities. Please go ahead.
- Monika Joshi:** Just to get your thoughts on your US pipeline, are you sticking with your 20 plus launch target for the year?
- Pankaj Patel:** The way things are happening I do not think we can touch 20 products this year. We expect that in the balance part of the 9 months of this year, we can have roughly 5 to 8 approvals and more approvals we can expect in the next year. Because of a change in the US laws, we are not seeing approvals coming through because they want to give a complete response letter and then, based on the complete response letter only, they want to move forward and that does take longer time. So may be 5 to 8 products for the balance part of the year we can see at this moment.
- Monika Joshi:** And sir if there is a change in the way the US FDA is really taking approvals forward, do you think this will have kind of ripple effect into FY14-15 as well and do you see that momentum does picking up to staying same at 5-8 or that should really go up?
- Pankaj Patel:** No, it should be significantly larger number coming up because they change the process and because the FDA process has changed, this change in process is taking time this year, but actually this is done to speed up the regulatory approval process. So next year onwards, we expect that the approvals will be faster and the timeline will start reducing in the process.

- Monika Joshi:** If I remember from the last call you had mentioned something about a plant inspection in August and I believe that was for your transdermal facility, is that happening?
- Pankaj Patel:** It is happening at this moment.
- Monika Joshi:** Now just one clarification, Vishal if you could help us or if Nitin bhai is around. Sir what we are seeing is depreciation numbers staying constant for the last 5 quarters and what we understand is there has been some 680 crores of CAPEX and you continue to invest in capacity. So why does your depreciation staying flat?
- Vishal Gor:** This is Vishal. If you compare Q-o-Q, yes there is hardly any increase in the depreciation because in last quarter, that is March, we had some one time impairment changes in one of our businesses. So it is not recurring in nature. If you minus that, then there is sequential growth of over Rs. 15 million and majority of the CAPEX which we have done, it is still under WIP. So as and when they are installed and put to use, they would be capitalized and depreciation would start on them once they are capitalized.
- Monika Joshi:** And what was this one-time charge related to, Vishal?
- Vishal Gor:** It was about Rs. 30 million and it was related to some of our intangibles in Brazil.
- Monika Joshi:** And just one accounting question. What is your net debt situation right now?
- Vishal Gor:** Net debt as of now is Rs. 2550 crores.
- Monika Joshi:** And gross would be?
- Vishal Gor:** 3025 crores.
- Moderator:** Thank you. Next question is from the line of Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** One clarification on the borrowings, you have reported small forex gain in the quarter. Why is that the gain?
- Pankaj Patel:** Because majority of the loss which we have booked because of forex fluctuations would have been routed through foreign currency monetary items translation difference accounts. So that is routed through balance sheet basically and whatever amortization happens would be reported in P&L and whatever gains we would have realized in the initial part of the quarter on settlement of some of our loans is higher than the amortization charge. So there is a little bit of gain on net-to-net basis in interest cost.

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- Girish Bakhru:** And Pankaj bhai on the overall US launches, I know you have given outlook of 5-8 approvals, but if you could just give color like would Niaspan be part of the approvals that you can see in this fiscal?
- Pankaj Patel:** No, I do not think that would be part of the approval.
- Girish Bakhru:** And on the overall R&D guidance given you have plans to take this new product Lipaglyn to other markets. Would R&D jump up, though this quarter there was some bit of moderation. Where would you see the R&D going forward?
- Pankaj Patel:** R&D going forward is going to remain flat because lot of R&D investments which we have made we do not intend to make next year. However, there will be an additional investment we shall make when we start clinical studies in US and Europe for Lipaglyn and so assuming both of these, we expect R&D to remain flat next year.
- Girish Bakhru:** How big do you think this product can be and basically if I understand correctly this will take some markets from the old oral antihyperglycemis for us right. Where would overall market go to?
- Pankaj Patel:** We expect that this market in India could be about Rs. 100 crores in next 2 to 3 years and globally we expect this market when we launch in US and Europe territory, it can be between 500 million to a billion dollar depending upon the kind of indication approval and when do we get approval. Of course this will take a longer period because approval cycle should take us 3 to 5 years and subsequently launch and gaining sale will take even longer period. We are very excited about this new molecule and we believe that this can completely change the future of our organization.
- Girish Bakhru:** And just lastly on this new deal with IDRI on Kala-Azar, just have you booked any payment on this?
- Pankaj Patel:** There are no payments involved. We are only to participate by way of doing clinical studies in India. There are no payments involved in these deals. IDRI is a kind of organization which does not work for profit.
- Girish Bakhru:** And this would be a big vaccine given there are no vaccines in Kala-Azar right now?
- Pankaj Patel:** There are no vaccines on Kala-Azar available.
- Moderator:** Thank you. Next question is from the line of Karthik Mehta from ICICI Securities. Please go ahead.

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Karthik Mehta: Just wanted to understand that if you look at the IMS **AWACS** data for the first 3 months of this year April, May, June, Cadila has grown in excess of 15% in the secondary sales whereas we report less than 10%. Where is the miss here, is it that from your end only you gave the inventory less and if the secondary sales, the growth is so high. Which categories you think are actually growing faster than what you would have expected. Can you just actually help us out on this?

Pankaj Patel: There are two elements on this. One is that it is a secondary sales, we report primary sales. The second is there is always an element of fudge between what the actual sale is and what is reported by IMS. So it is because of these two factors, there you see the difference between our number of growth and what is reflected by IMS.

Karthik Mehta: If we look at other companies which have reported their numbers, your growth has been higher. We saw some of your peers report yesterday and they have actually de-grown. Just to understand this overall point, is it fair to assume that the overall industry growth will be lower for two reasons that the pharma companies intentionally did not actually put in inventory because it was old price and that will be re-priced and you expect that there was some confusion on the 45 days. There is some strike in Maharashtra also. So going ahead if we have to annualize, is it fair to assume that in the next quarter you would have more than 3 months sale recorded because there will be inventory filling also?

Pankaj Patel: There is a lot of confusion, may be if you ask me it is a mess. So the main reason for what you are saying, this 15% what has shown by IMS and our internal growth being 8% is mainly because of the destocking because today the stockiests are very hesitant to purchase anything because it is not only an issue of the stocks which will have differentiated pricing, but there is also an issue which has been raised about margins and that is the thing which is actually creating a lot of resistance from the stockiests because the products which have gone into NLEM, earlier were having 10% stockiest commission. Now that according to the understanding because NLEM has said the retailer margin has come down from 22 to 16, obviously the stockiest margin comes to 8%. So the stockiest are saying it should be 10%. There are so many issues related to the margins which have been raised. Because of this, there is almost a stop in purchases and most of the companies especially the bigger ones because we have scale and that is why the stakes are very high of the stockiests. So that is why they are trading very cautiously.

Pankaj Patel: Just to add to what Mr. Nayak is saying, till now the practice in India, in industry and which was approved by government was that from a particular batch number, new price will be applicable. So in the market, people know that from this batch, this price, previously whatever old price was that will be applicable. Unfortunately in this new pricing order, they have removed that and put 45 days timeline for ensuring that old priced batches are liquidated from retailers' shelves. Now it has created a lot of mess because there would be inventory at retailer level, there would be

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inventory at wholesaler level, there would be inventory at stockiest level and all these inventories cannot become zero in 45 days and as a result , there is a lot of confusion in the whole market and that is impacting the purchases by stockiests.

Karthik Mehta: Sir would it be fair to assume that from the perspective of Cadila, effective destocking would have happened by the end of the June quarter or would have happened in July and from now on would it be fair to assume that effective new price inventory which will be loaded in the trade and also for the next 3 months that number will be not ideally a 3-month sale number, it will be higher than the 3 month sale number, is that a fair assumption?

Pankaj Patel: It is difficult. I tell you when this whole mess is going to be resolved, we do not know today. It all depends how soon this mess is getting resolved. The moment it resolves, things will become normal and then we expect the sale to be better than what normal sale would have been but at this moment, it is very difficult for us to say when this will get resolved. As of today, it is not resolved. The industry has suffered in July as well.

Karthik Mehta: Then on Hospira, is there still actually pricing pressure on the products that we sell and may be the outlook on the new products that we expect to launch in the JV?

Pankaj Patel: First of all, the pricing pressure because of launch of newer products in the category of exclusive product has already had the impact and now we are getting into a steady base. We are planning to launch additional products and one of the products we are planning to launch is Oxaliplatin and that should help us to improve our number further. For this year, we expect the Hospira number to be flat or little lower, but going forward we should see the growth.

Karthik Mehta: Sir this Oxaliplatin will be launched in the US, is it been already also launched in the Europe market?

Pankaj Patel: Both US and Europe market.

Karthik Mehta: This will be in FY14 you said right?

Pankaj Patel: Yes.

Moderator: Thank you. Next question is from the line of H R Gala from Quest Investment Advisors. Please go ahead.

H R Gala: Just seeking a clarification on the effective tax rate that we see in quarter one consolidated, it was just 9.1% and in Zydus Wellness, it is negative. That is why the earnings have grown by 68%,

otherwise if we see profit before tax it has grown just by 11%. So can you clarify why such a low tax rate and why negative in Zydus Wellness.?

Pankaj Patel: In case of Zydus Wellness, we have refund of income tax paid earlier because of Supreme Court judgment which allowed depreciation on goodwill and we had goodwill in books of Zydus Wellness. So we revised our return and based on that we got refund of income tax paid earlier.

H R Gala: How much was that sir?

Pankaj Patel: It was about Rs. 5 crores.

H R Gala: And in Cadila, what was the reason for just 9% tax rate?

Pankaj Patel: Cadila has a consolidated rate.

H R Gala: But how much we should presume because normally we have been saying that we should have around 15% type of rate console?

Pankaj Patel: 15%.

H R Gala: We should go for 15%, so 9% is an aberration sort of?

Pankaj Patel: Yes.

H R Gala: Second question pertains to how you see overall outlook because for one reason or the other reason our sales growth is not happening. So again getting back to our idea of reaching 3 billion sales, do you think that we will have major headwinds coming forward if things do not get in shape soon?

Pankaj Patel: No, we do not think that we have headwinds coming forward because we all know that there is a significant investment made in R&D and which is basically impacting the margins, but going forward we clearly see that R&D expenses are going to remain flat and that would help us to improve the margin. As far as this situation of not getting approval of new product is concerned, it is a temporary phase because it is the change in the system which USFDA follows for approving new products, and as a result the new way of approving product has started and since it is new, it is taking time, but ultimately it is going to help to get even quicker approval. So the way we see, we do not see that going forward we have an issue. With respect to the number of 3 billion, that is a kind of thing where we do not want to say anything at this moment because the way the exchange rate is fluctuating, we do not know what rate we should take and based on that we should arrive at number. So we are doing some exercise and by end of this quarter, we expect

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that we would have clarity on what is going to happen to this 3 billion number. I hope by that time we would have much better capability or stabilization of exchange rate and we will let you know by end of this quarter exactly what is going to happen to this 3 billion number because when we did the 3 billion exercise, the assumption was that the dollar will be at Rs. 45 , but anyhow that is a reality and I think we need to face it. I am not concerned about that because ultimately growth will come back. Indian market growth glitch which we are seeing now is a temporary thing. Going forward and in the long term, we do not see a problem in growth as far as Indian market is concerned and US also will come back because we have several products filed and approvals are expected. So it will happen one day and then we will see, basically approvals and things will completely change.

H R Gala: I understand that sir. Just last question from my side. As far as our arrangements with Abbott, Bayer etc. are concerned, when do you think they will start contributing to revenue in a significant manner.

Pankaj Patel: Bayer, we have a joint venture. So it is already contributing to the JV revenue. As far as the Abbott is concerned, we have just begun the commercial supply now. The ramp-up will take another 2-3 years that is what they are saying.

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

Krishna Prasad: Actually just the question on this complete response letter that you spoke about. If you could just elaborate on how the system has changed and what are we seeing today?

Pankaj Patel: What happens is when you file an ANDA, it has several sections. It has a CMP section, it has a labeling section, and it has a bio-study section. Different sections are there in the ANDA. Previously what was happening, there are different departments in FDA who were doing this analysis and suppose one of the sections has completed, they would send letters, send real additional information they require, they have issues, there is a deficiency in the dossier XYZ. Now under the new GDUFA, FDA is mandated by law that they cannot issue partial response letter, but they have to issue complete response letter that means all the three divisions have to complete evaluation and then one common letter will be issued for all the deficiency at one time and the companies are also required to submit responses of all the things at a time. So previously individual division was giving deficiency, we are replying and then the other one will give we will reply. So it was happening in piecemeal. Now that is a good thing because what happens in the process is that time taken for the query clearances is faster, but because the new system has introduced correctly there is a lag and that is why the complete response

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letter, there is a delay happening in FDA level and the FDA expect by next year they should streamline.

Krishna Prasad: So Pankaj bhai if you could let us know if we have already received any such complete response letter?

Pankaj Patel: For several ANDAs we have received complete response letters.

Krishna Prasad: Right which means we now go back and work on it and then go back to the FDA.

Pankaj Patel: Whatever additional information they require, we might have to just reply or we might have to do some additional work and reply and then once you reply, then we are in the queue for approval.

Krishna Prasad: Just on the vaccine bit, I know we spoke about the facility that we put up for vaccines and also biosimilars. If you could just may be talk a bit about what our plans are as far as these areas are concerned and what we really see in terms of revenue upsides over a 2-3 year or 5-year period where we see these businesses heading?

Pankaj Patel: Coming to biologics first, biologics as you know we already have products on market. One MAb, we already have an approval for doing clinical studies and we are at this moment in the clinical study, so that we would have approval of that MAb. Other MABs are approved by the clinical study machine has stopped. They are not issuing permission at this moment. We expect that the government will resolve the issue with the Supreme Court by September and then the approvals will start coming in because already they are approved by everybody except that when the Supreme Court says go ahead and give approval. We would get approval and then the biological approval process will start. We also have initiated clinical study for one of the MAb for registering into developed market and also we are registering the approved MAb into emerging markets. So what we see from this perspective is that in India, we could see additional upside of MABs coming up next financial year onwards and in emerging markets also some approvals are expected where we can get additional sales. As far as the developed market is concerned, it is still fluid because exact process is not yet fully defined, but we expect that we should have approval in about 3 years' time into some developed markets where we could see a significant upside as far as biologics is concerned. Vaccines, there are several vaccines which are under different stages of development and some clinical studies are ongoing. We expect that products should get approval for marketing next financial year and through that we would be launching in India and subsequently going for WHO accreditation and also selling in other markets. The vaccine programme has several vaccines in different parts. So it has one of the largest vaccine segment i.e. quadrivalent and hexavalent vaccine and also we have several other Novel vaccines which are also in advanced stage of development.

Many of them are in clinic now and we expect that once those products will be approved , we would have upside on vaccine coming up. If I have to put it more fairly that we would see a real impact of vaccine coming in FY16.

Krishna Prasad: But in either of these areas, are we sort of exploring partnerships at least for the regulated market portion of it, are we sort of considering any of that?

Ganesh Nayak: We are considering partnership also in some markets and there are some talks going on, but nothing is concrete as yet.

Moderator: Thank you. Next question is from the line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: The EBITDA margin for the quarter, is there anything exceptionally bad about it or are we looking at this kind of margins for the rest of the year?

Ganesh Nayak: EBITDA margin has impact because of foreign exchange trade ERF losses, lower margins at our Hospira JV. It has the lower royalty income in the US and higher R&D cost and higher energy cost. So these are the three reasons which has impacted the EBITDA margin.

Bino Pathiparampil: So do we have visibility for a significant change in any of these for the rest of the year?

Ganesh Nayak: We have done several actions to actually improve the EBITDA margins including how to bring down the cost because that is one of the things we can do it. We cannot touch ERF thing because that is fluctuating and we cannot do too much about it. Whatever internally we can do in terms of controlling the cost and reducing the cost including the PRISM program which we ran and completed successfully recently. We are going to see impact of that coming up now and that would help us to improve the margin going forward.

Bino Pathiparampil: And Pankaj bhai compared to your peers, other pharma companies which have performed much better in the last couple of years or so there were lot of tailwinds in the form of weaker rupee etc. Compared to that, Cadila has kind of like lost out in the last couple of years. If you take most of the markets US, be it LATAM or in the JV business, the CRAMS business, etc. So did we get something wrong in the thought process originally or is it just a phase?

Pankaj Patel: I think it is a phase mainly driven by lack of approval in US because our total business if you look at it, the major two businesses are in US and India. India, we are doing okay and better than the market. So Indian growth has not impacted, we were comparable or better than peers as far as India is concerned. The lack of product approval in US has actually impacted our US growth, but coupled with that because we continue selling our old products and also authorized generics, our margin got erosion in the US market and that had impact on EBITDA

margin. On the JV, we had exclusivity and we lost exclusivity and we do not have second exclusivity there. So as a result, we got impacted as far as JV numbers are concerned, but it is a one-time phase and going forward we are adding products into the JV which would help us to grow the JV business as well. So I think it is a phase. I am very confident that next financial year onwards we should see a significant improvement in margin and also better sales growth.

Bino Pathiparampil: Sure and can you give updates on Nesher, is it going on as per the original plan when we acquired the company, are we getting products in the markets and those products are doing well, are we on track to get more products on to the market?

Ganesh Nayak: So as far as Nesher is concerned, as per our plan we are delayed by about two months for launch of one product, but otherwise we are on plan and the overall Nesher product pipeline should have all approvals coming by next year and that should help us to beef up the number as far as Nesher is concerned. We are also now filing newer products from that site. Of course it will take cycles of three years to get approval, but we are filing products from there which are new ANDAs to make sure that we have healthy pipeline of some very interesting products going forward. So if I have to say natural original plan and this plan, we are delayed by about few months and we lost one product which we thought we could have brought back which is not going to happen. So I think that is what it is. On the FDA front, we are doing very well. FDA is very happy and they have in fact reduced some of the over site on our manufacturing by consultant because they saw a significant change in all of the systems happening there. So on that front, we are doing well. Nesher is a long-term play for us and I think we are very excited because we believe that in future, it will become a significant contributor to topline and bottom line to the organization.

Bino Pathiparampil: And finally one question on transdermals. As of now when do you think you can see the first approval, is it FY15 or FY16?

Ganesh Nayak: Where in Nesher?

Bino Pathiparampil: No, transdermals.

Pankaj Patel: Transdermal, one step towards getting approval is FDA inspection which is currently happening. So that is the positive development as far as that is concerned. If everything goes well, we should have approval in FY15.

Moderator: Thank you. Next question is from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal: On the ANDA pipeline, could you give us the pipeline with yourself as well as with your partners, pending and approved?

- Ganesh Nayak:** So total filing so far are 179, of which 78 have been approved and 101 are pending approvals as of June 2013. Now this includes ANDAs filed for partner also. So 19 among these are filed for partner. Out of which, 7 are approved and 12 are pending approval.
- Prakash Agarwal:** And you talked about one injectable product being launched, could you elaborate on that?
- Pankaj Patel:** We launched Ranitidine injection during the quarter. This was launched by us.
- Prakash Agarwal:** And you talked about one product getting delayed for 2 months on the Nesher, was it Micro-K or?
- Ganesh Nayak:** Micro-K is already approved and already we are selling.
- Prakash Agarwal:** But are you planning a site transfer or do you plan to expand the production?
- Pankaj Patel:** So we are not planning any site transfer. This being produced at Nesher only because it has enough capacity to produce the product.
- Prakash Agarwal:** So the product delay was because of?
- Pankaj Patel:** New product approvals. What we are saying is that it is a part of Nesher. We were to bring back products to the market and where we see one of the products is delayed by about 2 months.
- Prakash Agarwal:** So Nesher is now a clean facility with no problems.
- Ganesh Nayak:** Yes.
- Prakash Agarwal:** And as you said given the guidance on products which was expected to improve from 5 to 8, so is there a guidance on next year's pipeline launches?
- Pankaj Patel:** We have so many approvals pending. So we believe that next year we should have at least 10 to 15 approvals.
- Prakash Agarwal:** Because I thought they would be bunching up right?
- Pankaj Patel:** It could give us surprise also, but because I am very cautious at this moment to say anything more because of the way it is behaving.
- Prakash Agarwal:** Understand, but would not be fair to assume bunching up of approvals in fiscal '15?

- Pankaj Patel:** It can happen, but it is very difficult because it is not in my hand, it is third party. It can. We expect that bunching should happen, but I cannot give you a guidance.
- Prakash Agarwal:** Understood and lastly if I understand it correctly as you said India business currently also seeing some disturbance in the inventory. So I think may be this quarter as well and full year basis it will see some recovery. US you already talking about 5 to 8 product launches. So any guidance you would like to give on the margins?
- Pankaj Patel:** Generally we do not give guidance. So that is not our process. We do not give guidance, so we are not providing any guidance.
- Prakash Agarwal:** But it would look definitely up from here?
- Pankaj Patel:** Yes definitely. That I believe so.
- Moderator:** Thank you. Next question is from the line of Jiten Doshi from Enam. Please go ahead.
- Jiten Doshi** My question is related to basically the joint ventures. What is the outlook there for the year and going forward and what are you looking at in terms of product pipeline out there?
- Pankaj Patel:** As far as our joint venture is concerned with Hospira, we have added a new injectable product. We are also building a new line in the joint venture for adding additional products manufacturing. So that should help us in improving the numbers in next financial year because we would have additional capacity available for producing it. Ultimately the goal is to produce most of the oncology products for partners in India at our joint venture. As far as our joint venture with Takeda is concerned, there is an advanced talk going on for adding additional products manufacturing in India and we expect that additional product agreements should be signed up before the end of this financial year and we would start manufacturing that also in the joint venture. So currently the joint venture has stabilized and growing, but going forward it will see further growth. Our third joint venture is with Bayer that is for Indian market where we are seeing constant growth happening in the domestic market including launching of patented product. We expect that going forward, we should be able to launch the Bayer patent product in Zydus as well. So that broadly I can describe as far as joint venture is concerned and they have gone into the bottom of whatever that has happened to them and going forward we will only see upside.
- Jiten Doshi:** Pankaj bhai what is the sustainable growth rate you believe for the domestic market once all these issues are behind us let us say after quarter 2, what would you like to say as your sustainable growth rate for the domestic?

- Pankaj Patel:** 15%.
- Jiten Doshi:** That is the sustainable rate and despite all the new launches and everything, so this would be like for FY15, we can consider 15% as a base rate. How much would you really aspire to grow otherwise, about 18-20% normally as you would have done many times in the past.
- Pankaj Patel:** Usually we will aspire for higher, but since you asked me a stable growth, I say 15% is what minimum we have to get it. We should be better and that should be our goal.
- Jiten Doshi:** And one last question Pankaj bhai, what is the CAPEX for the current year totally?
- Pankaj Patel:** Current we are expecting CAPEX of 550 crores.
- Moderator:** Thank you. Next question is from the line of Ashish U from Elara Capital. Please go ahead.
- Pankaj Patel:** I have a few queries on Zydus Wellness performance. Could you help us understand how different products have grown and actually what has gone wrong with the top-line growth which says about 11% and share some outlook on how do you see the sales growth happening on these products?
- Pankaj Patel:** In Zydus Wellness, Sugarfree continues to do well. The sales on Nutralite has remained flat and the Everyuth also has remained flat, though there are some SKUs have grown and some SKUs have not grown. So, it has remained flat and that has overall impact as far as growth is concerned which is around 11% for the quarter. Going forward, we expect that we would touch closer to about 500 crore target. So we do not see there any issue. The growth should be around 15-18% minimum that is what we see.
- Ashish U:** But sir what is the confidence level on this 15-18% growth numbers?
- Pankaj Patel:** We see that we can achieve that. Lot of things are happening at this moment and we have relaunched our whole Everyuth range. It is being supported now by advertisement and that should help us. Sugarfree continues to do well and on Nutralite we are working further and going forward we also would plan to launch new additional products during this year which would help us to further increase the sale.
- Ashish U:** So we are planning to launch one more brand as such or would these be extensions of the existing.
- Pankaj Patel:** We are planning to launch a brand and also brand extension.

- Ashish U:** But sir Everyuth, is there a category problem or is it to do with the brand itself for your brand actually?
- Pankaj Patel:** It is not a category problem, it is brand problem.
- Ashish U:** Any idea that you can give us on which area you are planning to launch new brand?
- Pankaj Patel:** I do not think we can tell you that at this moment because it will not be in larger interest of our organization.
- Ashish U:** And anything to share on Nutralite you are saying that again it has been flat YoY, I know that there is a lot of competition there, has that aggravated further?
- Pankaj Patel:** I think we are getting into more value-added products and we will focus more on value-added products which would basically differentiate us and that should help us to grow the business.
- Ashish U:** Sir finally wanted to understand whether this advertising would go up overall for the company since topline growth is a bit subdued from these levels.
- Pankaj Patel:** No, I do not think advertisement will go up. We would remain at similar percentage, but with the revenue growth, the advertisement spend will increase.
- Ashish U:** And anything to share on the tax rate you said that there is a 5 crores exceptional item for earlier years, but just cannot get an understanding of the 8-9% tax rate normally . So if you could just explain in short or to all the investors probably?
- Vishal Gor:** We have a facility in Sikkim where we do not have to pay any tax because it is a tax-exempted area, but still we have to pay minimum alternate tax which is AMT for a partnership firm, but then again you can claim credit of that AMT which is allowable in the future years when that tax exemption period expires. So we pay the AMT and then claim the credit. So as a result on net-net basis, we do not have to book anything on Sikkim facility so far as tax goes. So the tax liability is accounted for only the remaining part of the business which is in the main company that is Wellness. So as a result, the consolidated blended tax rate comes down to around 8-9%.
- Ashish U:** But this AMT will be some 17-18% at least I think.
- Vishal Gor:** Correct. Then we claim full credit on that.
- Moderator:** Thank you. Next question is from the line of Hardik Bohra from Motilal Oswal. Please go ahead.

- Alok:** Just a couple of questions. One is on US Pankaj Bhai, would it be fair to assume that 20% growth guidance in US would now be difficult to achieve for the fiscal?
- Pankaj Patel:** This year yes, it looks difficult to achieve the 20% growth guidance because we do not have approvals. Next year we should not find any problem in that.
- Alok:** And second one on the impact of NLEM that you mentioned 90 crores. Now this is just the impact that you calculated from price decline or you are building in some volume gains also because of the price decline.
- Pankaj Patel:** This is only price decline. There is no volume gain considered here.
- Moderator:** Thank you. Next question is from the line of Amit Shah from Enam AMC. Please go ahead.
- Amit Shah:** Just two questions sir. Pankaj Bhai on the US side, we understand that there are currently headwinds because of the regulatory changes, but once you see these headwinds getting subsidized, going forward FY15 onwards, do you see the significant ramp up in US business over next 2-3 years as we have seen in case of some of your large peers.
- Pankaj Patel:** That is what we expect also because we have number of filings and they are in advanced stage of approvals. So once those approvals start coming in, we already have created manufacturing capabilities for supplying those products. So then we should see really a very good growth coming for US.
- Amit Shah:** Pankaj Bhai second question is on RoW markets, so this quarter particularly we see a bit subdued at 14%. If we adjust for currency, may be the constant currency growth would be even lower. So could you just throw some color on that? What is exactly happening on that front?
- Pankaj Patel:** In some of the markets, particularly in Algeria, we had significant one-time sales last year, which did not happen this year. Now this quarter there was no growth, no sale and that is where we see the subdued growth, but other markets are doing well and we do not see any issue growing the business going forward.
- AmitShah:** So may be on a sustainable basis, do we expect 20-25% growth in RoW barring this?
- Pankaj Patel:** Yes.
- Amit Shah:** Sir one last question from my side. Pankaj Bhai mentioned in the Brazil that the lack of product approvals is causing the sales decline, but apart from that do you see any structural

issues, higher competition or the price cuts by competitors and how would it impact Cadila as a company?

Pankaj Patel: So there are no structural change already as I mentioned earlier is because of destocking, reducing inventory by wholesalers, distributors. Traditionally they used to keep 75 days plus inventory. They want to bring that down to 45 days. That is a structural impact you can see, but that is only again one time. It is not permanent.

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

Saion Mukherjee: Sir two questions on the US front. In the last call you mentioned that there could be some low competition products. Now when we talk about 5 to 8 launches to the rest of the year, do we expect any of the low competition opportunities to come your way?

Pankaj Patel: Within those low competition products, one of them can come in our way.

Saion Mukherjee: So sir when you talk about low competition, how do you define that. Is there a revenue target you have in mind or competitive landscape that there are like two competitors, three competitors, how should we think about low competition?

Ganesh Nayak: Low competition is basically one or two players only or no players.

Saion Mukherjee: And my second question is of the 100 odd pending applications, can you just remind us how many of them are transdermal and topical and injectables that split?

Ganesh Nayak: Vishal will provide you this. Vishal will get you the data.

Moderator: Thank you. That was the last question. I now hand the conference over to the management of Cadila Healthcare for closing comments.

Ganesh Nayak: Thank you very much and look forward to interacting with you again after the second quarter in the month of October-November. Thank you very much.

Moderator: Thank you. On behalf of Cadila Healthcare that concludes this conference. Thank you for joining us. You may now disconnect your lines.