Cadila Healthcare Limited
Analyst/Earnings conference call
(April 29, 2010)

Moderator: Good evening ladies and gentlemen. Thank you for standing-by. This is Manoj, the moderator for your conference call today. Welcome to the conference call of Cadila Healthcare Limited. We have with us today Mr. Pankaj Patel, Chairman and Managing Director from Cadila Healthcare Limited. At this moment, all participants are in a listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1. I would now like to turn the conference over to Mr. Pankaj Patel. Please go ahead sir.

Pankaj Patel: Good evening and welcome to our Post Results teleconference. I have with me Mr. Ganesh Nayak, Executive Director of the company. We have Mr. Nitin Parekh, the CFO and Mr. Vishal Gor responsible for our Investor Relationships.

The year gone by has been very important one for us in which we took several initiatives and achieved new heights which set the ball rolling for our next milestone of Turnover of $ 1 billion in 2010-11. Our continuous endeavour to improve our efficiencies and deliver our commitments in any situation has paid off well, and the performance of 2009-10 is the evidence of the same.

So first let me recap the highlights of the initiatives and achievements for the year 2009-10.

On the India Formulations front,

To strengthen our position in fast growing cardiovascular segment, we expanded our field force by ~ 300 people in this segment, and launched Cardiva division, which will aggressively penetrate into the urban market with its range of Anti-hypertensive & aspirin combinations. To have focused promotion efforts on specific therapy areas, the products have been divided between existing Medica division and new Cardiva division.

To consolidate our position in the respiratory segment, we expanded our coverage by adding ~100 people to exploit the potential of antiasthma inhalation therapy in the mass markets with Physician focus.

We launched over 30 new products and similar number of line extensions in the formulations market, of which 17 were first in India. Prominent among them were Cintapro OD in Gastrointestinal area, which is Cinitapride hydrogen tartrate ER Tablets; Etogesic MR in Pain Management area, which is Etodolac + Thiocolchicoside Tablets; Fluticone FT in Respiratory area which is Fluticasone furoate Nasal Spray; Inditel in Cardiovascular area which is Telmisartan Tablets; Ivoral in Anti-infective area which is Ivermectin + Albendazole Tablets and Oxalgin Nano Gel in Pain Management area which is Diclofenac + MS + Menthol Gel in Nanoemulsion

Overall, India formulations business posted sales of Rs. 14458 Mio, up 12%.

Coming to Global Formulations,

In US, we successfully completed our fifth year of commercial operation, posting another year of robust all-round performance. With continuous endeavour to meet needs of the customers across all trade classes, we have achieved "Preferred Supplier" status from many of our customers.

We posted sales of Rs. 6715 Mio. in US , up 69% y-y, with launch of 6 new products. 12 out of total 29 products launched in US so far have achieved an attractive level of average 20% market share, and we are now among the top 20 generic companies in the USA.

In Europe, our French operations continued strong performance, with launch of 14 new products, including 8 day one launches. This helped us strengthen our position in the French generics market, increase our market share to 2.65% in participated generic market and improve our ranking to 10. In Spain, we continued our thrust on new products and filing of more dossiers for launch in future.

Overall, we posted sales of Rs. 2740 Mio. in Europe, up 31% y-y.

We further strengthened our position in the $ 13 bn Brazilian branded market through launch of 6 new products in the neuro – psychiatric segment. With healthy growth in generic business also, overall we posted sales of Rs. 1818 Mio. in Brazil, up 12% y-y.

Continuing our initiatives to build presence in Japan, world's second largest pharmaceutical market with promising potential for generics players, we launched 4 in-licensed products. In a strategic move to get entry into the hospitals market, we acquired brand "Aldomet", an anti-hypertensive drug.

During the year, our Japan operations posted sales of Rs. 316 Mio., up 44% y-y.

We acquired remaining 30% stake in Simayla Pharmaceuticals (Proprietary) Limited, our subsidiary in South Africa, from the co-promoters. With this, Simayla became our 100% subsidiary. We aim to consolidate our position in this key market and contribute to the healthcare community in South Africa in a meaningful way.

We maintained our strong leadership positions in Sri Lanka, Myanmar, Uganda and Sudan, and became the only Indian company to successfully start operations in Taiwan.

Among the other businesses,

Zydus Wellness Ltd. posted strong results with all-round performance from all the three pillar brands viz. Sugar Free, EverYuth and Nutralite and registered sales of Rs. 2675

Mio., up 37% and net profit of Rs. 453 Mio, up 90%. Significant pull effect generated thru focused promotion and advertising helped achieve this performance. We launched "Menz", an exclusive skincare range for men under the EverYuth banner.

API Exports (other than Nycomed JV) continued to grow on the back of Clopidogrel Besylate sales to key EU customers, and posted growth of 28%. A new chemical plant for Clopidogrel was commissioned at Dabhasa in Gujarat within short span of 8 months.

Zyfine, our fine chemicals division received the USFDA approval for its manufacturing facility near Ahmedabad, becoming the only Contract Mfg. Organisation offering services in the high potency actives area in India to have a USFDA approved facility.

Zydus Hospira JV commenced commercial operations from May-09, with supply of three oncological injectible products (two commercial and one process validation) for European market, and posted sales of Rs. 1678 Mio. (50% of which is our share).

USFDA inspection of the oncological injectible facility of Zydus Hospira has also been successfully completed.

On the manufacturing side,

1. During the year, our tablet facility & lyophylization facility of Moraiya plant successfully completed the AFSSAPS & EU GMP audit respectively, without any major points.
2. To meet the increasing demand across the markets and ensure full and timely availability of products, capacity up- gradation, enhancement and balancing of several facilities have been carried out. Various streamlining initiatives were also undertaken during the year to ensure maximum productivity and better utilization of all the facilities.

We have developed in-house and implemented a unique Track & Trace system called ZEET – Zydus End to End Tracking system for all packing lines for US market.

Our continuous efforts to bring in operational efficiency have been appreciated with two awards conferred to us -

1. "IMAI OE Award for the Pioneering and Paradigm Shifting Applications of OE in Tablet Manufacturing" by KAIZEN Institute
2. "Best - In Class Mfg Award (Pharma Sector)" by Stars of the Industry Awards.

On the R&D front,

We filed our 7th IND – ZYD1, a novel GLP-1 agonist molecule with DCGI as well as US FDA.

ZYD1 is a novel candidate in the class of anti-diabetic agents known as incretin mimetics and has displayed a better efficacy and safety profile.

Phase III clinical trials for ZYH1, our lead molecule for Dyslipidemia have been initiated. ZYO1, our novel drug candidate for treating obesity and related disorders and ZYH7, our novel drug candidate for treating dyslipidemia and metabolic disorders have completed Phase I clinical trials.

Within one year of initiation, the research efforts in collaboration with Karo Bio, Sweden have generated a series of novel dissociated non-steroidal glucocorticoid agonist lead compounds.

We initiated development of NDDS on Nanotechnology, and have developed a Nanoblu technology platform for topical application.

We developed in-house technology for high quality vaccine on H1N1 and became the first Indian Pharma company to get DCGI nod to start clinical trials of H1N1 vaccine.

We set up a new Vaccine Technology Center near Ahmedabad, which will focus on developing vaccines for diseases by several viruses and bacteria.

We commissioned a new dedicated state-of-the-art manufacturing facility for manufacturing biologics (recombinant therapeutic proteins) near Ahmedabad, to tap the promising opportunities in the biosimilars market.

We set up a new API R&D hub at Dabhasa, which will focus on developing processes for the regulated and non-regulated markets. With 10 research labs supported by an analytical lab, the center has a team of 100 researchers spearheading the initiatives.

We filed 14 more ANDAs with US FDA, including 8 ANDAs for parenteral products, taking total to 106 ANDA filings. We also filed 14 US DMFs with US FDA, taking cumulative total to 90 DMFs.

We received 12 more ANDA approvals from the US FDA, taking total to 54 product approvals, of which 29 products have been launched so far.

We filed 35 additional new product dossiers for EU market, incl. 22 for Spanish market, taking cumulative number of new product dossier filings to 89. Cumulative number of site transfer applications for EU market has reached 50.

We filed 14 additional dossiers for Brazil market, taking cumulative number of dossier filings for Brazil to 59.

We filed 9 additional dossiers for South Africa market, taking cumulative number of dossier filings for South Africa to 67.

Now let me take you through broad financial numbers.

During the year 2009-10 on consolidated basis:

Total income from operations was up by 26 % y-y to Rs. 36.9 bn from Rs. 29.3 bn last year.

EBIDT was up by 34 % y-y to Rs. 8087 Mio. from Rs. 6058 Mio. last year. EBIDT margin was up by 1.2 % to 21.9 % from 20.7 % last year.

Operating profit before tax (excl. non-operating incomes, exceptional items and exchange rate fluctuation on forex loans) was up by 50 % y-y to Rs. 5939 Mio. from Rs. 3962 Mio. last year.

Net profit after tax was up by 67 % y-y to Rs. 5051 Mio. from Rs. 3031 Mio. last year, and in line, EPS was also up by 67 % to Rs. 37.01 from Rs. 22.20 last year.

Return on average capital employed increased to 21.1 % vis-à-vis 17.8 % last year, while return on average net worth increased to 35.9 % from 28.4 % last year.

Thank you and we will now start the Q&A session. Over to the coordinator for the Q&A.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. If you have a question please press * and 1 on your push button phone and await your turn to ask the question when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing the # key. Our first question comes from Parijat from Goldman. Please go ahead.

Balaji Prasad: Thank you. The name is Balaji Prasad. Pankaj Bhai congratulations on the quarter, just wanted to ask one specific question about the Zydus Nycomed JV. In 2009 and 2010, this has been able to withstand effect of the loss of the Pantoprazole patent when both Teva and Sun launched. I wanted to get your thoughts on the outlook for this JV now in the context of the latest jury verdict on litigation on pantoprazole where the patent has been upheld by the jury, so what kind of outlook or impact could this have on this particular JV, Pankaj Bhai?

Pankaj Patel: As far as the verdict is concerned, this is very recent phenomenon and we have no clear visibility on exactly what is going to happen. We believe that our current volume should be at least protected, we might get some additional volumes benefit. It all depends on how things move forward. Our JV also has set up meanwhile the API manufacturing facility which is likely to be commissioned during the next quarter. We expect that next financial year, apart from the pantoprazole intermediate, we will also be producing about 14 APIs out of this plant, and based on our early estimates we expect that we would be able to get for the current financial year additional business of approx. Rs. 50 crores as a company and the Zydus would benefit to the extent of Rs. 25 crores.

We expect the commercial production in the API facility to start somewhere end of the next quarter and then going forward we would be increasing the volumes in the JV.

Balaji Prasad: Thank you for this. That is very helpful. If I understood you right, you said that the 14 APIs which would be started from next quarter that would add about Rs. 25 crores totally this year for FY11?

Pankaj Patel: Yeah, that will be 50% of our share and that would be sales for 6 months in FY 11.

Balaji Prasad: Okay, wonderful. Second question is on Flomax. Congrats again on the approval now I understood that you launched this in the U.S. this week. Could you please provide some light on your strategy for this product and considering that the other generics competing for the same market and may be on a conservative estimate what could be a reasonable market share that you could end up with?

Pankaj Patel: See in U.S., you know when you launch a product on Day-1, you acquire certain customers and based on that we can forecast some market share for the product. So, we expect based on whatever customers we have acquired as of today, we already have about 25% market share.

Balaji Prasad: Okay, how many generic competitors are there for this product?

Pankaj Patel: I think 4 or 5, but I do not have the exact number.

Balaji Prasad: Okay, thank you. Lastly one question at the broader level, your domestic revenue for the last 4-5 years has grown from 10% to 11%, would this be the kind of sustainable growth rate or is there any scope for this growth rate to improve further?

Pankaj Patel: If you remember last year the growth in India formulations was below 10%. We have gone to 12% now. We expect that the next year, we should be in the range of 14 - 15%. In the Indian market you cannot just change the picture overnight, but we see that we are on the right track, and we do see a kind of 15% growth in Indian market for the next financial year.

Balaji Prasad: Thank you very much. Good luck for FY11.

Pankaj Patel: Thank you.

Moderator: Thank you for your question sir. Our next question comes from Mr. Alok Dalal from M S Global. Please go ahead sir.

Alok Dalal: Hi, thank you for taking my questions. Pankaj bhai just one question on domestic formulations. We have seen a growth of 8.5% this quarter, any particular reason for this low growth or is it seasonal effect that we have in Q4?

Pankaj Patel: Yeah, I think it is typically a last quarter syndrome. We also restructured our cardiology business during the quarter, so there are a lot of disruptions as we were shifting people, we were shifting products and things like that. Also in 5 states of Karnataka, Maharashtra, Himachal Pradesh, J & K and Uttaranchal, there changes in VAT rates due to which stockiests have reduced buyings in last quarter. So, couple of these factors affected us but we are very confident that the next year 15% growth is definitely going to happen as far as domestic market is concerned.

Alok Dalal: Okay and sir second question with respect of Hospira. As the U.S. FDA inspection has been done now, so when do you expect sales to be done in U.S. from Hospira?

Pankaj Patel: In US, litigation on the current patent is going on with respect of Oxaliplatin and other products, so as of now we are not able to tell you as to what would be the supplies to Hospira for US market. We expect to have clarity about that once the patent scenario becomes clear, but we definitely have good forecast for the next financial year for Hospira.

Alok Dalal: Okay, but U.S. from Hospira JV, you expect one or two product launches this year or……

Pankaj Patel: We expect one or two launches in this year, yes.

Alok Dalal: One or two products.

Pankaj Patel: Yeah.

Alok Dalal: Okay and one final question, how many products are you planning to launch in U.S. on the formulations front that is on your own?

Pankaj Patel: In the U.S., the next financial we would expect about 10 product launches.

Alok Dalal: About 10 product launches, okay, and you have approval for how many of those?

Pankaj Patel: We have approval for 54…

Alok Dalal: No, out of the 10 planned, how many have been approved?

Pankaj Patel: I do not have the number in front of me, sorry I would not be able to answer, but I will ask Vishal to provide you that information.

Alok Dalal: No problem and one thing, what is the CAPEX for FY11?

Pankaj Patel: FY11, we expect CAPEX of about Rs. 300 crores.

Alok Dalal: 300 crores. This is above the normal 200-220 crores kind of CAPEX, okay.

Pankaj Patel: We are gearing up to increase certain capacities and building some newer facilities for some dosage form so that is why we need to basically invest additional money, so we have fixed up 300 crores target for CAPEX for next financial year.

Alok Dalal: Okay, thank you and all the best.

Moderator: Thank you for your question Mr. Alok. Our next question comes from Mr. Kartik Mehta from Daiwa Capital Market. Please go ahead.

Kartik Mehta: Hi, if you could please throw some light on how you would be expanding the field force from year on in the domestic business to actually reach the proposed 15% in the growth rate from here and also explain us to why would the growth rate be on the 12% when the broad industry has been in the range of about 12-14% and we also see your company doing well as per the IMS numbers. So, if you could actually also help me with that, thanks.

Pankaj Patel: Okay, I think first answering your questions, we added over 600 people in the domestic formulations business across the different therapies. Second is we have divided our domestic businesses into 4 business units now and we have created a new unit which focuses only on specialty products like cardiovascular and neurology. The second point is you raised about the IMS number and our number being different. We are reporting what exactly is our primary sale. IMS reports secondary sale. So, that could be the difference, but we are only reporting what we primary sold to our stockiest.

Kartik Mehta: Yes sir, that is the point that the secondary sales seemed to be actually higher than your number, so it that we reduced?

Pankaj Patel: That is why we will be able to achieve 15% next year.

Kartik Mehta: Should we assume that there has been some also inventory reduction in this quarter by us in the channel?

Pankaj Patel: Actually we do not have yet the exact data available. If I were to assume based on the data that there will be a reduction in the inventory at market place then we should benefit of that in this quarter and going forward.

Kartik Mehta: Okay and what would be the MR strength now and what do you expect roughly by the end of the year?

Pankaj Patel: We have total field staff of over 4000 at the end of the year.

Kartik Mehta: Okay and sir in case of the Latin American business also what is your thought for FY11-12 especially in the fact that we have launched some of the products in

Brazil, how much growth do you expect and what is the expected range of markets share also?

Pankaj Patel: Next year, we expect 25% growth in Brazil and actually the product for which we have had issue with the approval, we have recently got clearance for one of the products and which is also launched so that would also help.

Kartik Mehta: And sir lastly, what is your strategy in terms of H1N1 if you could share something on pricing, commercial sales, sales in countries and across India where you would be able to be launch without any delay?

Pankaj Patel: Sorry, we will only be able to talk about it once we have an approval in hand, we expect that will happen in very soon. Once that is there, we will be able to disclose our strategy.

Kartik Mehta: Okay, but are you open to selling countries across Asia or would that require some addition of capacity, how does it work for you sir?

Pankaj Patel: We are going to be open to sell across the different market, so at this moment we have capacity to produce about 8 million dossiers and based on the market response we will expand this capacity.

Kartik Mehta: Do you buy the argument that you would not be able to sell it in the same way as it could have been anticipated because most experts seem to actually look at it as an unreal opportunity actually being created and with temperature so high now, you will not have as large market as you would have thought when you had actually entered this?

Pankaj Patel: The fact remains that you know now in summer you don't see the H1N1, in summer you won't see a flue that is understandable and fair but as far as the prediction which is CBC and WHO's prediction says that H1N1 will be reappearing next winter again, so we expect that there will be a market. We are also in the process of developing the multivalent vaccines which will contain the classical flue strength plus the H1N1 so it could be a one shot flu vaccine.

Kartik Mehta: Okay, thank you very much.

Moderator: Thank you for your question Mr. Kartik. Our next question comes from Mr. Nimesh from NP Advisors. Please go ahead.

Nimesh: Thanks for taking my question and congrats for good set of numbers. Can you throw some light on the clopidogrel opportunity that you had hit up on in the Europe in market. I understand there was some shortage and which is considered lucrative opportunity. How long can this be and what is the kind of sales ballpark you are generating.

Pankaj patel: Currently when the clopidogrel became generic into U.S., Europe that was basically based on the salt. We have developed this new salt of clopidogrel bisulfate and we have basically been supplying to most of the formulators in Europe except two so we have most of the market and currently we are the sole supplier of clopidogrel bisulfate to all these customers. There was another supplier which has faced problem with the regulators in Europe and as a result, his API plant has been discontinued for supply into European markets. So, we are currently the only supplier and we expect for the next year also maintaining the same position as far as supply position is concerned.

Nimesh: This the other supplier who has faced problem is only for the Spanish market or for the entire European market?

Pankaj Patel: Entire European market.

Nimesh: So has Cadila only supplied in Spanish market?

Pankaj Patel: No we are supplying to everywhere, entire European market. All the European formulators are buying our APIs.

Nimesh: Can you give us some ballpark number of what kind of quantum of sales you are generating from that product in that region?

Pankaj Patel: We are expecting close to about 40-45 tons of APIs to be sold in this market.

Nimesh: My next question is related to the Rabies vaccine that we have developed and what is the status in the WHO and are you likely to expect any orders for that?

Pankaj Patel: No I think there are two different questions. You have asked two questions actually in one question. The first is we have our first generation Rabies vaccine which is WHO approved and which we have already started exporting in few markets which is not significant at present but the exports are picking up. The second point is that we have developed our next generation Rabies vaccine which is currently undergoing clinical studies which is just getting over and we are going to get approval for a new generation vaccine which will expand our competitiveness in the market as it will have a better efficacy going forward. So currently we are selling good quantity of Rabies vaccine but going forward we expect that we will further consolidate our market positions in India and start exporting into the more market. Currently we export in three-four countries but more countries are in pipeline.

Nimesh: Can you also share your profitability number on Hospira and also the sales from France Brazil, South Africa, Spain?

Vishal Gor: Yeah Hospira during the financial year 2009-10 has registered sales of Rs 839 million and profit of Rs 252 million.

Nimesh: What would be the same for the Nycomed, I know the sales but profitability what I don't know?

Vishal Gor: Rs 465 million. That is our share and then you have question on Brazil sales.

Nimesh: Geographical breakup of sales basically. France, Brazil, Africa, and Spain.

Vishal Gor: No we provide these sales breakup that is only for US, Europe that includes Spain and France which I think you have already received but within that we don't provide further breakup.

Nimesh: Any color on how the France market is performing after it has seen some kind of reforms there. Is it picking up or as the scenario still not so lucrative?

Pankaj Patel: As far as last year is concerned, we grew in France market at about 31% and we expect that we would have similar growth in the next financial year.

Nimesh: Lastly can you just let us know your debt position and also some color on the tax rate it has been phenomenally for this quarter?

Vishal Gor: Yeah, the first question is on the debt position right?

Nimesh: Yeah gross debt or net debt whatever you can give. The net debt position?

Vishal Gor: Consolidated gross debt was Rs 1092 crore on 31st March 2010. Debt net of cash was Rs 840 crore.

Nimesh: Sorry can you come again, I could not hear.

Vishal Gor: Yeah, gross debt was Rs 1090 crore and net debt was Rs 840 crore.

Pankaj Patel: And compared to last year the debt reduced by Rs 176 crore.

Vishal Gor: The debt equity ratio had come down to 0.52 from 0.85 last year.

Nimesh: And tax rate any guidance for the next year?

Vishal Gor: Tax rate would be for 15% only next year also.

Nimesh: 17% you said?

Vishal Gor: Less than 15%.

Moderator: Thank you for your question Mr. Nimesh. Our next question comes from Mr. Bhavin Shah from Dolat Capital. Please go ahead sir.

Bhavin Shah: Thank you and congrats for a great FY'10 sir. Just a few questions, the guidance that you given about one to two products in the Hospira joint venture that should be launched in next fiscal year. Is there scalability issue that we keep in mind, or you feel that we are comfortable growing this in the next year?

Pankaj Patel: There are no scalability issues, it's only the regulatory and other processes. The regulatory approval for this plant is through but there are some patent issues in US, and once they are resolved, we would start supplying for US market also.

Bhavin Shah: Sir how do you play the U.S. market now, after having reached a great scale. This year would see some niche product launches? What do we get some feelers from you sir?

Pankaj Patel: We will continue to have some good product launches for this year and we also are expecting a very good growth of sales not exactly at the pace at which we grew last year but at significantly high percentage growth we are expecting next year. Our minimum target for the next year is $175 million.

Bhavin Shah: That should be great, sir. Wish you all the best again thank you so much.

Moderator: Thank you for your question Mr. Bhavin. Our next question comes from Mr. Rahul Sharma from Karvy Stock Broking. Please go ahead.

Rahul Sharma: Sir just wanted to know what capacity utilization are we operating in the Zydus Hospira JV?

Pankaj Patel: Currently we are operating at about 15% capacity in this plant.

Rahul Sharma: And what target you gave sir, I did not get it for Hospira JV next year? You gave some Rs 177 million or what was it?

Pankaj Patel: No, we did not give any target for Hospira for the next year. We gave a target of $ 175 million for our US business.

Rahul Sharma: And sir what kind of capacity utilization you're looking at for Hospira next year?

Pankaj Patel: Very difficult to give you a number about capacity at this moment.

Rahul Sharma: Sir, another thing was on the ANDAs which you have filed, we have filed Aerosols ANDAs and the parenteral ANDAs now what has been the time span since we have filed it and when do you feel this can come through for us?

Pankaj Patel: See currently, the FDA's review cycle is about 26 months. So we expect that this approval will only happen in 26 months from now. So they were filed at different times during the year, so you can expect those approvals to be coming in maybe 2012-13.

Rahul Sharma: Okay and sir another thing was on the pulmonary, transdermal, injectable, and oncology, where are we in the time lines of filing and how are we placed and when are the approvals expected sir?

Pankaj Patel: Injectables we have already started filing, also the nasals we have started filing. This year we will see transdermals and respiratory products being filed and we expect as I said before, approvals for both product to be happening around 2012-13 time scale.

Rahul Sharma: Transdermal you will file this year and which other segment sir?

Pankaj Patel: We will also file the product in the respiratory segment, the inhalers basically.

Rahul Sharma: Any niche product is expected year-on-year from your portfolio every year?

Pankaj Patel: Yes, we are currently developing niche product portfolio and we have filed couple of them already. More we will tell you once it becomes public information.

Rahul Sharma: But do you expect it to be launched every year? Can you see in the basket around two to three products coming in from your stable?

Pankaj Patel: Yes.

Rahul Sharma: Okay, I will join in the queue sir.

Moderator: Thank you for your question Mr. Rahul. Our next question comes from Mr. Rajesh Vohra from ICICI Securities. Please go ahead.

Rajesh Vohra: Good evening gentlemen, congratulations for good set of numbers. Pankaj Bhai on the medical field force side lot of other companies are also aggressively expanding their field force - Ranbaxy, Glaxo and few others as well just like yours. What are your thoughts in terms of that - is it going to lead to some kind of over detailing to physicians or some thoughts on that?

Pankaj Patel: Typically what happens is that originally the pharmaceutical companies have been focusing on key doctors so that typically companies would have a marketing division of about 300-400 reps. And with this 300-400 reps you cannot cover more than 120,000 doctors at the max. But given that the doctor population is very large plus we had not been covering all the markets, these actually increases if you get into the rural markets and the markets where doctors are not covered. So, for example, if you take a city like Bombay, typically a pharmaceutical company will operate between 25-30 reps earlier time. Companies are now operating in Bombay with 100 reps because the doctors are much more and they were not all covered. So I think to reach more and more physicians across the India is actually driving this particular rural market and the interior market, but even cities like Bombay, companies don't cover all doctors and there is lot of opportunity to really look at this. So extra urban is another area which is becoming very important, for example, you again take Bombay, Bombay there are a lot of extra urban territories, which are just next to Bombay but they are like Bombay and that also gives you opportunity to expand your reach.

Rajesh Vohra: Set of New Mumbai type? And any thoughts on this change in guidelines for promotion to the physicians that has come up or is it too early to say?

Pankaj Patel: Well, a good company should actually be following some of these guidelines which have come up and I think it is an important move forward from a matured pharmaceutical market point of view but I think long-term companies who want to have a vision to build the business from a long-term perspective should follow this kind of guidelines. And that would really help them in terms of building a long-term sustainable business.

Rajesh Vohra: And lastly on last call you had also mentioned but for the sake of repetition still, is company pretty much on track to achieve the billion-dollar mark in this fiscal year?

Pankaj Patel: Yes, we are very much geared up for achieving our healthy billion numbers this year. And I hope we will all be celebrating next time we meet during the conference call.

Rajesh Vohra: Very good, wish you all the best.

Moderator: Thank you for your question Mr. Rajesh. Our next question comes from Mr. Prashant Nayar from City Group. Please go ahead.

Akshay: Hi this is Akshay here, congrats on a great set of numbers. One question now, can you just elaborate on your FOREX hedging policy?

Pankaj Patel: FOREX hedging policy. Vishal?

Vishal Gor: Yeah as of now out of the total gross debt of about Rs 1090 crore. 50% is denominated in foreign currencies. And of that about 27% is hedged thru different ways. On the receivables side we don't have much of the derivative which are open. As on 31st March, about $ 10 mio. worth of export receivables have been hedged forward at an average rate of about Rs. 43.50.

Akshay: On this $1 billion guidance what currency rate are you assuming on this?

Pankaj Patel: Well it is, we are assuming at about Rs 46 a dollar.

Akshay: Okay that's about 25% odd growths in rupee terms? And do you expect the margins to go up or remain at the same levels?

Pankaj Patel: Our continuous endeavor is there to improve the margins and we are hoping that margins also will go up next year.

Akshay: Okay but any quantum that you have in mind?

Pankaj Patel: Generally, if you see our historical chart we increased our margins by about 1% every year. So there is no reason for us to believe that we cannot repeat that.

Akshay: Okay, thanks. Also on your biosimilars are you in talks with anybody to tie up for this products or do you plan to go on your own.

Pankaj Patel: It is too early to talk about biosimilars at the moment.

Akshay: Okay thanks a lot.

Moderator: Thank you for your question Mr. Akshay. Our next question comes from Mr. Manoj Garg from Emkay Global. Please go ahead.

Manoj Garg: Good evening and congratulations for good set of numbers. Pankaj you have made an additional investment in transdermal technology about Rs. 50 crore this year, can you just throw some more light on this?

Pankaj Patel: We put up a huge facility to manufacture transdermal products for global markets and this is the high end of technology so we need to really invest a lot in terms of manufacturing facility.

Manoj Garg: So do you need some more incremental investment in this project?

Pankaj Patel: No we don't need any further investments in terms of capacity. Now only product development related investment would be there.

Manoj Garg: And the second thing like just want to understand if I see the raw material cost even on Y-O-Y as well as on quarter-on-quarter basis it has gone up. Is it because of some change in product mix or if you can throw some light on that?

Pankaj Patel: Sorry I couldn't understand your question.

Manoj Garg: It's regarding the raw material cost, which has gone up both Y-O-Y as well as quarter-on-quarter basis also.

Pankaj Patel: In the last quarter that is quarter four, the proportion of Nycomed JV sales and the domestic formulation sales, which are high margin businesses, was less in the overall sales and that is by basically the product mix issue. Otherwise you should be looking at the year-on-year overall annual material cost which has gone down.

Manoj Garg: Okay and seeing the first nine-month kind of revenue run rate for Hospira, do you see looking at expanding the capacity of Hospira may be going forward in next one or two years?

Pankaj Patel: Sorry again your voice is cutting can you repeat?

Manoj Garg: This is regarding Hospira seeing the run rate, I just wanted to understand do we look forward to even further expand our capacity in Hospira going forward in next one or two years?

Pankaj Patel: No because currently as I mentioned this we are currently using only 15% of the capacity. We have capacity available now, because we have just started, so we still have to go a long way.

Manoj Garg: Okay that's all from my side, wish you all the best sir.

Moderator: Thank you for your question Mr. Manoj. Our next question comes from Perizaad from Goldman. Please go ahead. Is this Perizaad? I will go for next question. Our next question comes from Mr. Kartik Mehta from Daiwa Capital Market. Please go ahead.

Kartik Mehta: Yeah, sir if I have to understand your foray into vaccine you would initially incur cost of salesmen etc. If you look at three years down the line is there a ballpark number what you have that, you would have X% of domestic sale from actually vaccine and if most of them are not to institutions, should it be fair to assume that they will be a fair scale in the staff cost because you would be reaching out to various doctors as well. So if you can throw some three year outlook in your thought on how you would approach this business not in particular only of H1N1 but for all the vaccine put together because that can actually really drive your margins. Thank you.

Pankaj Patel: See currently we sell anti-Rabies vaccine and anti–typhoid vaccine which are being sold by our general field force already in the place and for the H1N1 vaccine we have task force appointed which is going to be very small in size and there we will be focusing on selling the H1N1 vaccine. As we develop more vaccines we will be able to give you exact numbers and exact scene what we will do with vaccine but today I am unable to provide you further information on those.

Kartik Mehta: Okay, thanks.

Moderator: Thank for question Mr. Kartik. Our next question comes from Mr. Nimesh from MP Advisers. Please go ahead.

Nimesh: Yeah I have a follow up question. First of all I missed the point, when is USFDA approval for Hospira plant that you are expecting?

Pankaj Patel: It is already approved. The plant has been already inspected and approved.

Nimesh: Okay so then when is the sales likely to come in, sorry it is already there in the…

Pankaj Patel: That's what I was trying to mention that we expect one or two products in U.S. this year. However, it all depends on the current patent litigation process going on.

Nimesh: Second you mentioned about U.S. generic sales of $175 million is that correct? And third on the domestic formulation part what is the kind of doctor coverage that you are expecting to achieve, what is the target through the increased sales force?

Pankaj Patel: Well we are actually increasing number of teams, so about doctors coverage would still remain to the extent of about 200,000 doctor across India to various streams but coverage point of view we are basically going to cover all those important specialty doctors by the initiative which we have taken particularly in the area of cardiovascular area and respiratory and we want to expand our reach to physicians in the process.

Nimesh: Currently the doctor coverage is about 120,000 doctors right?

Pankaj Patel: Yeah correct and this will go up to between 1.5-2 lakh and so.

Nimesh: Okay, thanks very much.

Moderator: Thank you for your question Mr. Nimesh. Our next question comes from Mr. Rahul Sharma from Karvy Stock Broking. Please go ahead.

Nischit Sanghvi: Yes sir this is Nishit Sanghvi, sir I just want to understand why like there is de-growth of 9% in the emerging markets?

Pankaj Patel: Actually there it is basically the issue is with supply side. As we have decided to dedicate our Moraiya facility for regulated markets, we are in the process of shifting the products for emerging markets from Moraiya facility to our Goa facility. While the shifting is going on, we have not been able to produce for the orders from the emerging markets. We expect the situation to normalize soon and we would start supplying from Goa facility for emerging markets soon.

Nischit Sanghvi: So going forward we see normal sales, normal growth happening? What kind of growth rates for do you see for these markets?

Pankaj Patel: Yeah that's right. We expect about 25% in these markets.

Nischit Sanghvi: Okay sir, thanks sir.

Moderator: Thank you for your question sir. Our next question comes from Mr. Ritesh Shah from HDFC. Please go under sir.

Nitin: This is NItin here, sir I just wanted to check there has been a reduction in the other expenses during the quarter, pretty sharp reduction on Q-O-Q basis also is there any particular reasons for that?

Pankaj Patel: See typically you should not be looking at the quarter four numbers for these expenses because what happens is that we worke out the annual numbers and they get audited thoroughly. If you see staff cost there is a Q-O-Q as well YoY jump while in the direct expenses there is sharp reduction. So for the first three quarters normally we make provisions for the expenses based on best estimates for the activities carried out and the actual numbers or the exact numbers are worked out on annual basis and quarter four is nothing but annual numbers minus the nine months reported numbers. So annual growth in this kind of expenses would be a right number to look at rather than quarter four numbers.

Nitin: There is nothing like any exceptional sorry non-recurring compensation which already there?

Pankaj Patel: No.

Nitin: Okay sir, thanks.

Moderator: Thank you for your question. Our next question comes from Mr. Manoj Garg from Emkay Global. Please go ahead sir.

Manoj Garg: Thanks for taking my question once again, Vishal do we have any FOREX gain during the quarter or loss?

Vishal Gor: We did not have any FOREX gain.

Manoj Garg: Okay only the loss which we had in terms which we have recognized on the interest item, Rs. 1.1 crore, right?

Vishal Gor: No that is the FX loss on foreign currency loans but on operational side also we had loss which is reported in general expenses.

Manoj Garg: So how much was that?

Vishal Gor: For the year it was Rs 32 crore, Rs 317 million to be precise.

Manoj Garg: And for quarter?

Vishal Gor: Rs 13 crore.

Manoj Garg: Thank you very much.

Moderator: Thank you for your question Mr. Manoj. Our next question comes form Mr. Prashant Nayar form Citigroup. Please go ahead.

Prashant Nayar: Can you just tell me why the tax rate is so low for this quarter, I missed this earlier?

Pankaj Patel: Tax rate for the last year that is 2008-09 on an average was 18%. This year if you would have observed up to December only it has gone down to 14% primarily because of the increase the volumes in our Sikkim facility which is 100% tax exempted. Plus last year we had this foreign currency monetary item translation difference account which was to the tune of Rs 44 crore which was created because of the revised accounting standard 11. Now on that Rs. 44 crore asset we had created deferred tax liability. This year because of the appreciation of rupee, that account got reduced to Rs 10 crore and consequently the deferred tax liability on that was also reversed. This was done in last quarter i.e. quarter four, so that's why tax rate in quarter four was down.

Prashant Nayar: But this Sikkim facility will lose the EOU benefits from next year?

Pankaj Patel: It is not EOU.

Vishal Gor: It enjoys tax exemption for 10 years so it will not lose.

Prashant Nayar: So you expect tax rates to be below 15%?

Vishal Gor: Yeah.

Prashant Nayar: Thanks.

Moderator: Thank you for your question Mr. Prashant. Participants if you have any further questions please press * and 1 on your pushbutton phone. Our next question comes from Mr. Sarabjit from Angel Securities. Please go ahead.

Sarabjit: Have just missed on the hedging policy of your company.

Pankaj Patel: We are just reviewing the scenario in terms of what is likely to be the picture in terms of our exports and forecast forward rates and then we will take the decision accordingly.

Sarabjit: Currently sir 10 million is hedged what you are saying.

Pankaj Patel: Yes, that is on receivable side.

Sarabjit: Okay sir. Thanks.

Moderator: Thank you for your question. Participants if you have any further questions please press * and 1 on your pushbutton phone. As there are no more questions I would now like to hand over the conference to Mr. Pankaj Patel. Please go ahead Sir.

Pankaj Patel: Thank you for joining for the conference and see you in the next quarter end. Thank you.

Moderator: Ladies and gentlemen this concludes you conference for today. We thank you for your participation and for using Tata Indicom Conferencing Service.