



“Cadila Healthcare Q4FY13 Results Conference Call”

May 30, 2013



**MODERATORS MR. PANKAJ PATEL – CHAIRMAN AND MANAGING
DIRECTOR**

**DR. GANESH NAYAK – EXECUTIVE DIRECTOR, CADILA
HEALTHCARE LIMITED**

MR. VISHAL GOR – GENERAL INVESTOR RELATIONS.

Moderator

Ladies and gentlemen, good day and welcome to the Cadila Healthcare Q4FY13 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference, please signal an operator by pressing * followed by '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ganesh Nayak – Executive Director, Zydus Group. Thank you. And over to you sir.

Ganesh Nayak

Good afternoon and welcome to our post results teleconference for FY13. We have with us Mr. Pankaj Patel – Chairman and Managing Director and Mr. Vishal Gor – General Manager, Investor Relations.

The year gone by was a mixed bag of positive performances on various fronts and some challenges in a few areas. While we continued to perform well in the Indian formulations space, outpacing the market growth, our performance in Europe and emerging markets also improved. Zydus Wellness also came back on the growth track with an overall improvement in the operating and net margins. However, our US business continued to face challenges in the form of lack of new product approvals in spite of the resolution of the US FDA warning letter and also the price challenges on existing products.

Our Brazil business also had challenges mainly from the external factors beyond our controls. While our JVs continued to grow, their margins decline due to the price erosion in key products. These challenges have had their impact on the overall margins and profitability of the company. While our long-term objectives and strategies remain intact, challenges in key markets may take some time to get resolved. We remain committed to putting in our best efforts to ensure that we overcome these issues as early as possible. Our continuous efforts on the cost optimization and margin improvement fronts have been further **buoyed** by the Prism-2 program. New technologies like transdermals, biosimilars, and vaccines, where we have already made sizable investments are also expected to contribute in our long term aspirations.

With that let me share some of the highlights and numbers for the year gone by:

On the India formulation front, we maintained strong leadership position in cardiology, gynecology, gastrointestinal, and respiratory therapy areas and significantly outpaced the overall market growth of 12%. We restructured Biochem operations to setup a strong foundation for achieving mid and long-term growth plans. We launched over 90 new products including line extensions in India during the year of which 21 were for the first time in India. Overall, our India formulation business posted sales of Rs. 23,232 million, up by 23%. In the US generic space, we launched seven new products including one controlled substance

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product from Nesher, Of these, four products were launched in the last quarter. We maintained our rank of the 10th largest generic company in the US in terms of prescriptions, with about 2/3rd of the products marketed by us having leadership positions.

We filed 33 ANDAs including 8 for injectable products and 2 for topical products which were filed for the first time with the US FDA taking our cumulative ANDA filings to 173. we received approvals of 15 ANDAs including 7 injectables during the year taking our cumulative approvals to 76. Overall, our US business posted sales of Rs. 15,068 million, up by 21% during the year.

Coming to Brazil – We continued our focus on brand building initiatives and launched two new products, one in the branded and one in the generic segment. We filed 18 new product dossiers with the regulatory authority, ANVISA, taking our cumulative filings to 100 and received approvals for 5 products dossiers, taking the cumulative number of approvals to 39. we posted sales of Rs. 2384 million in Brazil. The business faced growth challenges due to the slowdown of certain critical government functions.

Coming to Mexico – During the year, we filed 6 new product dossiers with the regulatory authority COFEPRIS, taking our cumulative filings to 20. We received three new product approvals from COFEPRIS for the first time thus paving the way for the Zydus launch in Q2 of FY14.

Coming to Europe – We continued to progress well in France on the back of the high growth of the French generic market, while in Spain, we continued to outperform the market growth rate. We launched 13 new products in France including 5 day-1 and 24 new products in Spain including 5 day-1 and 15 from India. We filed 25 new products, taking our cumulative filings to 161 and received approvals for 22 new products taking our cumulative approval to 112 for the European market during the year. Overall, our Europe business grew by 24% and posted sales of Rs. 3697 million. Our exports to the emerging markets grew by 66% and reported sales Rs. 3134 million. More than 30 new products including several first in the market were launched in the focused markets of Asia Pacific, Africa and Middle East during the year.

On the Zydus Wellness front Sugarfree is now back on the double digit growth trajectory and continued to drive the overall category growth with a commanding 92% market share. We revamped the Everyuth brand with the launch of new variants of face washes and scrubs, the re-launch of Everyuth Menz and a premium range of soaps. Scrubs and peel-offs continued to maintain their leadership positions. We also launched a premium variant of Nutralite with Omega-3. Overall, Zydus Wellness Limited posted sales of Rs. 4100 million, up by 19% and net profit of Rs. 971 million, up by 43%.

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Amongst other businesses, our animal health business posted sales of Rs. 2370 million, up 22% backed by 13 new product launches in India.

Our API business registered a growth of 9% and posted sales of Rs. 3099 million. We filed 7 DMFs with the US FDA taking the cumulative number of DMF filings to 114.

Coming to our JVs and alliances – Zydus Hospira completed successful re-audits by the US FDA and MHRA and new audits from the regulatory authorities of Egypt and Tunisia. The JV commenced commercial production and supply of two additional products for the US and one product for the EU market while three additional products have been transferred from Hospira to the JV during the year.

Zydus Nycomed commenced production and supply of three more generic APIs for the validation batches and commercial supply of two more generic APIs to Nycomed. The manufacturing facility of Zydus BSV got audited and approved by the US FDA during the year. We commenced commercial supply under the Abbott deal with two products. We also commenced commercial supply of three injectable products for our partners for the US market. Our share in the sales of JVs and alliances stood at Rs. 5070 million, up by 20%.

Talking about new technologies – We filed one more ANDA for transdermal patches with the US FDA taking the cumulative number of filings to 3. On the biosimilars front, we already have launched six biosimilar products in India and now have applied registration for the emerging markets. We have started clinical trials for one MAB. We completed the construction of India's largest state-of-the-art facility for monoclonal antibodies. On the Novel biologics front Phase-1 clinical trials has started for PEG-EPO and rabies MABs.

On the vaccines front we successfully completed Phase-1 clinical trial for one viral vaccine. We also completed the construction of a new viral vaccine manufacturing plant. We have several vaccines in different stages of development mainly pre-clinical toxicity and clinical studies.

On the manufacturing and operations front – We received the US FDA approval for our formulations plants at Moraiya for new dosage forms like injections and nasal spray in addition to oral solids. We have started supply of injectable products to the US. product filings have been initiated for the US market from our new facilities namely ointments, creams, and transdermals. We also commenced commercial production at our Baddi plant for our US market. Under Prism-II we ran an organization wide program on cost optimization through multiple levers. We expect to improve our overall margins going forward with the implementation of numerous ideas generated in the process.

Now let me take you through the broad financial numbers:

During the year on a consolidated basis our total income from operations was up 21% year-on-year to Rs. 63.6 billion from Rs. 52.6 billion last year. Earnings before interest, depreciation, and tax excluding the impact of one-time dossier income received in the previous year was up by 9% to Rs. 11255 million from Rs. 10325 million last year. Revenue spend on R&D increased by 30% to Rs. 4705 million and R&D spend as a percentage to total income from operations increased from 6.9% last year to 7.4% this year. Profit before tax excluding one-time dossier income was up by 9% to Rs. 8110 million from Rs. 7429 million last year. Net profit excluding one-time income was up by 7% to Rs. 6551 million from Rs. 6116 million last year. Earnings per share stood at Rs.32. The consolidated debt at a gross level stood at Rs. 29219 million and net of cash stood at Rs. 23398 million. The consolidated CAPEX for the year was Rs. 6881 million. CAPEX on R&D included in this was Rs. 495 million. Thank you and we will now start the Q&A session. Over to the coordinator for the Q&A.

Moderator	Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Sonal Gupta from Enam UBS Securities. Please go ahead.
Sonal Gupta	How many filings you made this year in US?
Ganesh Nayak	We filed 33 ANDAs including 8 for injectable products and 2 for topical products which were filed for the first time and this takes our cumulative ANDA filings to 173.
Sonal Gupta	And you have 76 approvals so almost 97 products are waiting for the approval right?
Ganesh Nayak	Yes.
Sonal Gupta	What sort of approval flow do you expect for FY14? What sort of revenue growth do you think you should be able to do in the US in FY14?
Ganesh Nayak	Number of approvals we expect in FY14 are 22.
Sonal Gupta	It seems like a precise number and what is the sort of growth that you expect for the US business?
Ganesh Nayak	The overall growth that we expect for our US business is 20%.
Sonal Gupta	And when do you expect the transdermals to really start hitting the market for you?

- Pankaj Patel** We expect the approvals to happen during this financial year. We do not know exactly when this will happen given the uncertainty of the FDA in terms of the approval timelines but we expect, one of the approvals should happen during this financial year but it may be towards the last quarter of the year.
- Sonal Gupta** Just final question on Hospira JV you talked about transferring products to the JV from Hospira side, so could you give us some sense, has the scope significantly expanded on this JV and can we see growth coming back now? I guess the pricing pressure, etc., is already reflected. Do you think that this JV can be significantly larger now with new products coming in?
- Ganesh Nayak** For this whole year Hospira, in terms of the growth, it was not an issue, it was in terms of margins. So growth in top-line is not an issue.
- Sonal Gupta** Earlier it was six products so now the scope has expanded?
- Pankaj Patel** The scope has expanded with more products. So we expect to add 12 more products into the JV and out of that three site transfers have taken place and more are in the process. We also have some further plans but it is not yet final that we can announce. But we have further negotiation on to actually expand the scope with additional products.
- Sonal Gupta** Do you think that profitability will improve for this JV from here?
- Pankaj Patel** We don't expect the profitability to improve because of the fact that the ace product where we have the high margin because of the exclusivity is no longer on the exclusivity stage and as a result we don't expect the margin to improve. The products which we are now transferring are not the products where this kind of the advantages are there. So, they would be at lower margins.
- Moderator** Thank you. The next question is from the line of Jesal Shah from JM Financial. Please go ahead.
- Jesal Shah** Just on the total JV business, would you say that the current quarter's turnover should reflect the bottom and from here we should see some type of growth?
- Pankaj Patel** That's what we feel. We have reached the kind of a bottom and we should see a growth from now onwards on the JVs front.
- Jesal Shah** And as far as the tax rate is concerned what is the guidance for the next year?

Pankaj Patel We expect around 15%.

Jesal Shah On the emerging market business, can you just help us understand what has driven this type of growth this quarter?

Ganesh Nayak We had some very good business from three of the six markets and most of them were from Asia Pacific and one of them was from Africa and Middle East.

Jesal Shah So do you think this type of revenue can sustain going forward?

Ganesh Nayak Not to this extent, because as you would have heard me saying 66% growth but at least for the next one year, the going would be good.

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

Anubhav Agarwal Just one question on the R&D expense, this year you spent almost \$90 million can you give us a very rough idea would we be too off in assuming that the spend on transdermal activities would be like let us say in order to more than 20% or less than 20% of this amount?

Pankaj Patel I don't have the breakup in front of me. I cannot give you exact number.

Vishal Gor I can provide this number offline as I have to check the database.

Anubhav Agarwal So the second question on the Hospira JV if I look at the growth ex-docetaxel, what would be growth like? It would be single digit or it would be double digit growth year-on-year on the fourth quarter?

Pankaj Patel It would be double digit growth. that's not significant.

Anubhav Agarwal Last question on the Azelastine approval, last quarter you mentioned that nasal spray approvals you expect in the US in FY15. So I was slightly confused that you don't expect Azelastine approval in FY14 now?

Pankaj Patel Exactly, specifically to this product, we expect approval this year but we cannot specifically give you a timeline given that the current slowdown happening at FDA in terms of approvals. We are unable to give you a specific timeline but we expect at least one nasal spray to be getting approved this year.

Moderator	Thank you. The next question is from the line of Bino Pathiparampil from IIFL. Please go ahead.
Bino Pathiparampil	In the US you expect 22 approvals but only 20% growth in the business that sounds a bit too low for 22 approvals, are we expecting only very small product approvals?
Ganesh Nayak	Well again, approvals will happen but then, many of these approvals are towards the third or fourth quarter. that's the reason why we would not see much impact of these approvals in our top-line number.
Bino Pathiparampil	Could you explain the tax credit in the quarter why was not that credit being accounted for in the first three quarters and fourth quarter decided to take it?
Pankaj Patel	The tax credit comes from the fact that we are in minimum alternative tax across our different companies and these credits are available for utilization at the later date. So, based on the actual projections, we have taken relevant portion of the tax paid which we will ultimately get back as credit going forward. So this is basically the MAT thing.
Bino Pathiparampil	The operating margins of the company, are they pretty much in line where it should be or do we expect any major jump in the next few quarters?
Pankaj Patel	I think, current margin what you see EBITDA would remain for few quarters like that and it is contingent upon the approval of some key products, the margins can significantly improve. But our benefit, which have accrued from PRISM, will start happening more in the next financial year where you will see margin jump happening because of saving coming under the PRISM exercise which we did.
Moderator	Thank you. The next question is from the line of Girish Bhakru from HSBC Securities. Please go ahead.
Girish Bhakru	Just a question on royalty income that has significantly increased this quarter what has that result of?
Pankaj Patel	Actually last quarter we told you in conference call that we did not receive the royalty from one of the products in USA and that's why we had a lower number. That royalty now has been received. that's why it has been accounted here.
Girish Bhakru	So this is something which is going to sustain for sometime is it?

- Pankaj Patel** The whole amount is not going to be sustainable every quarter because of the fact that this royalty is almost of three quarters.
- Girish Bakhru** On the US side again you have launched one product again from Neshar, how is the outlook there in terms of additional products on control substance?
- Pankaj Patel** We have target to launch two more products this year from Neshar.
- Girish Bakhru** This is included in the 20% growth guidance that you are
- Pankaj Patel** I think most of the product approval in the next year we are expecting is in the oral side.
- Girish Bakhru** Lastly, on the emerging markets is there again that shift for some of the partner supplies in the US which is booked in the emerging market sales.
- Pankaj Patel** No.
- Girish Bakhru** So this 103 crores is exclusive for emerging markets?
- Pankaj Patel** Yes.
- Moderator** Thank you. The next question is from the line of Manoj Garg from Edelweiss. Please go ahead.
- Manoj Garg** Since the NPPA policy is finally been notified, I just would like to understand that when they are going to notify the selling prices and after that when do you see that actually implemented in the market sir.
- Pankaj Patel** When they will do it I don't know. I cannot answer you exactly when the NPPA will notify. What we hear is that pretty soon they are going to announce the prices. Exact dates are not known. Once they are announced then the new price will become applicable. You also know that there is a clause of 45 days that is going to make sure price implementation will happen quickly in the market and you may see some kind of impact on domestic market for one or two months because of that. So it depends upon what kind of basket is under DPCO and only those kind of products would get impacted because of that.
- Manoj Garg** In the document, they have indicated that products which are under DPCO 1995 and there the companies can take the price hike starting from June 13 onwards. Earlier the understanding was that after one year of the implementation of the policy the company can take the price hike. So is it June 13 or after one year of the implementation of the policy?

Pankaj Patel It is one year after the last price announcement that's what I understand but again I am not an expert in interpreting the law. You can also read the law as good as I but my interpretation is that it is from a last price revision announced by NPPA.

Manoj Garg That was May 12.

Pankaj Patel The date will be one year from there.

Manoj Garg Just last question, how do you see now the Brazil market? Whether those external factors started improving or you started seeing more approvals coming from that market or you are still seeing the similar kind of issues which were there in the past?

Pankaj Patel Brazil approvals are still not seen. We are not seeing approvals coming in as we expected so I can only say that we are not yet very happy with the way the approvals are happening. Though there are signal that things will improve but nothing concrete has happened yet.

Manoj Garg Till last year quarter we were guiding about 25-26% kind of tax rate which now we are guiding about 15% so what has changed while computing this tax rate?

Pankaj Patel Couple of things have happened. I think one of the things basically was MAT credit impact which was missed out while giving the numbers last time and when we realized that there is a MAT credit which we have to account for to the extent we can utilize in the subsequent year once the tax credit goes away that is the reason why we believe that the actual tax credit will come down next year. And if you see even this year the tax rate has come down because of that reason.

Manoj Garg At least for the next two-three years the tax remains in that range only?

Pankaj Patel Right.

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

Vivek Agarwal My question is related to your filing of Asacol and Asacol HD, recently FDA responded the citizen petition stating that generic companies have to do some additional clinical studies so I just want to know how it is going to impact your approval for Asacol and Asacol HD.

Pankaj Patel We have completed those studies and submitted to FDA those studies.

Vivek Agarwal When should we expect the approval?

Pankaj Patel Cannot comment about approval because it is still very difficult to predict approval for a specific product.

Vivek Agarwal One more question on Lialda, recently the court had validated the patent for 720 patent so I just want to know how it is going to impact on your launch in US?

Pankaj Patel We believe that our case is a little different than the case of Watson so we have a different ground we believe which should differentiate ourselves from the judgment which is in case of Watson. We will know more once that litigation actually takes place.

Vivek Agarwal How your progress is going for Urokinase?

Pankaj Patel It is still at a very early stage. We have not made much progress if I have to say. We are still negotiating with FDA about regulatory strategy and we have not yet got full clarity on that. So once we have more clarity we should be able to tell you. So at this moment we have not made much progress.

Vivek Agarwal Earlier you have commented that you are going to relaunch this product in FY15. So it is possible?

Pankaj Patel We are still hoping that but at this moment since you have asked me the question about the progress between the quarters and one quarter there is no progress with respect to what was there and now.

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

Prakash This is Prakash from CIMB. Just a question on your ANDA approvals, did I hear this correct you had 15 ANDAs of which 7 were injectable and you launched 7?

Ganesh Nayak No.

Prakash How many approvals you have had and how many you have launched?

Ganesh Nayak You are asking for injectables right?

Prakash No, total ANDAs approvals for the year?

Pankaj Patel Total approvals for the year were 15, of which 7 were injectables.

- Prakash** And you made a commentary before that 7 new products of which one was controlled substance?
- Pankaj Patel** Yes, that is launched.
- Prakash** In terms of Toprol XL would that be Cadila or from Neshier and when do you expect that to be in the pipeline?
- Pankaj Patel** We don't know when the approval will happen, It is from Cadila.
- Prakash** But any broad timelines is it a fiscal '15 event or may be later or could be earlier?
- Pankaj Patel** It is a fiscal '15 that looks realistic.
- Prakash** And in terms of dollar sales, would you be able to give dollar sales for the quarter and the year?
- Pankaj Patel** I think you can take this from Vishal. Vishal will give you offline because there is so much of data.
- Prakash** And lastly on the tax credit I think you explained, is this because of excess provision now you are writing it back and you have not accounted it earlier?
- Pankaj Patel** We were paying the MAT tax but you have to take a credit because those MAT will be utilized at a subsequent date because MAT is allowed to be offset against the tax payment in future. So as we do in deferred tax credit and asset, this comes as a deferred tax asset and that's why you see the credit coming here. More specifically if you want to understand, Vishal can explain you in much detail.
- Prakash** But going forward when we see (+20) products approved from US and the profitability increasing in dollar terms so do we actually you are again guiding for 15% kind of tax but would that change?
- Pankaj Patel** I think our business model is different than many of our peers. So I think in US we have limited income. All the profits accrue in India and that's why we expect the Indian tax rate would be primary driving factor for our overall tax rate.
- Prakash** But MAT credit would be 18-20% and you are guiding for 15%, any clarity there?

- Pankaj Patel** No, our overall tax rate would be around 15% so what happens is that compare to what we have said before 20% and now it is 15% that 5% difference has happened because we have taken the MAT credit which was not there up to last quarter.
- Prakash** And this you could take on for next couple of...
- Pankaj Patel** This is required to be done because these are the assets which are actually going to be an asset available for use when we have to pay full rate of tax.
- Prakash** Lastly on India business, Wellness, you showed very good growth but that was again on a low base so what is the sustainable growth we expect in this business?
- Pankaj Patel** We are on track to achieve our vision which is 500 crores by this financial year.
- Prakash** And India also you expect around 14-15% kind of growth?
- Pankaj Patel** We will do better than the market.
- Moderator** Thank you. The next question is from the line of HR Gala from Quest. Please go ahead.
- HR Gala** Just couple of questions. How confident are we about achieving our long term objective of 3 billion sales by FY16?
- Pankaj Patel** We are on track as of today, every quarter we will give you further things as this is now our milestones. We have a milestones for every quarter. As of today we are on our milestone as far as our 3 billion target is concerned. The danger is if FDA approval process remains slow and product approval does not happen. One of the key drivers for the growth will be definitely the US approval and if they don't come across then, we might have problems but today we cannot comment about that because it is too early for us to say that whether the approvals are not going happen.
- HR Gala** Subject to that what I wanted to know, that in FY13 our consolidated turnover and other operating income is around say 6500 crores and even if we take say Rs. 54 as a long term exchange rate, 3 billion means we have to reach 16200 crores which implies CAGR of 35% so are we confident that the approvals that are awaited in US can give that kind of huge turnover going ahead.
- Pankaj Patel** See, exchange rate today is 56. I don't know what is it going to be tomorrow. Neither you can tell me, nor I can tell you. We cannot move our target up based on the exchange rate. So basically this number when we decided for 3 billion we assumed the exchange rate of dollar at

44 rupees . So this 3 billion was based on 44 rupee a dollar and we are basically chasing that. It is very difficult for us to say what is going to be the number. When we decided that number, exchange rate was 44. I cannot move my rupee target on a continuous basis.

HR Gala Now you talked about the ceiling prices,that might be announced soon. What could be the negative or positive impact on our company on the domestic formulations business as a result of that?

Pankaj Patel I think our domestic business should have a reduction of approximately 2.5%.

HR Gala That is in terms of turnover and that will flow to bottom line also.

Pankaj Patel Little lesser number in bottom line.

HR Gala And apart from that, what are the major challenges do you look forward to – like one is that-approvals are not coming from the US market and the price challenge, are there any other challenges that you are looking forward to?

Pankaj Patel No, we don't see any other challenges.

HR Gala What will be your CAPEX in the FY14?

Pankaj Patel We expect it to be around Rs. 600 crores.

HR Gala So it will be mainly for the capacity creation?

Pankaj Patel Yes, it is mainly for the capacity creation.

HR Gala And thereafter do you think it can be plateaued down or still we will require 600 type of CAPEX?

Pankaj Patel It should be going down.

HR Gala Because we are spending much more than what depreciation we are providing for.

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

Monica Joshi Just wanted to understand how your profits and profitability actually shifts across markets. So particularly taking the base of your company level margins, how essentially is the European

markets and the US market placed? And in the next two years where do you see that going? I know you have the risk of delayed product approvals but if things go the way you planned, how much do you see will the improvement in the profitability across these two markets shift?

Pankaj Patel

Profitability improvement will happen mainly by increase in US sales mainly driven by launches of newer products that's what we expect but you have very long question Monica. So it is very difficult for me to comprehensively answer that. I am happy to basically sit with you and Vishal can really explain you the whole thing but in this call it would be very difficult for me to really specifically answer the detailed questions. But suffice to say that our margin improvement can happen because of two factors, one factor is the US product approval and sales and the second is improvement in margin by cost reduction in India.

Monica Joshi

If we can leave the US part aside because that becomes extremely dicey as far as your approval go but you have seen a reasonable traction I would say on the European side. So you would be more comfortable on those markets. So how comfortable are you in improving your margins in France and Spain?

Pankaj Patel

We have seen margin in France and Spain improving given the fact that our base is going at a good pace and also a lot of a product transfers happened to India which also brought down the cost of goods. So going forward also, we see that the margins would further improve. So that will contribute positively. So some of these markets where lower margins were there are improving that would impact but you have to understand that two-third of our business comes from India and US and these are the two markets where our margin improvement would be mostly driven by.

Monica Joshi

Barring the impact of the pricing policy you don't see a threat to your India profitability?

Pankaj Patel

Absolutely.

Moderator

Thank you. The next question is from the line of Alok Dalal from B&P Paribas. Please go ahead.

Alok Dalal

What is the growth in India formulation excluding Biochem for the quarter and for the full year?

Vishal Gor

For the quarter it would be same because Biochem was also there last year for the full quarter. For the entire year it was about 16%.

Alok Dalal

Has the FDA inspected our nasal facility and transdermal facility?

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Pankaj Patel Nasal facility was inspected last year and approved. The transdermal facility is not yet inspected.

Alok Dalal Any indications when they could come?

Pankaj Patel We expect next quarter may be.

Alok Dalal Because I thought this was supposed to be inspected sometime in February and March.

Ganesh Nayak We got message and then they had to postpone because of some other urgent inspection.

Moderator Thank you. The next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead.

Binoy Jariwala I wanted to check if the excise duty reversal has come in for Zydus Wellness second plant this particular year?

Vishal Gor No, this is mainly because in Zydus Wellness Sikkim plant the production has been higher than sales this time. So that is why and the excise credit which we have accounted for is the normal excise credit and not the higher excise credit for which we have made a claim but we have not been allowed by the authorities.

Pankaj Patel You could take up this offline with Vishal. He can explain you this in more detail.

Binoy Jariwala Second point was on the credit that you had taken on alternate minimum tax, if you could once again throw some light on it?

Pankaj Patel What is alternate minimum tax, it is a tax which you pay but it is available for future tax payments as permit to the extent one is seeing the projection that you are able to utilize this credit you have to take tax credit also for that after payment so that's what it has happened now. For the first three quarters we did not provide for that so all these provisions made in the last quarter.

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

Krishna Prasad To an earlier question you had mentioned about the transdermal facility inspection during the current quarter you mean in May or June timeframe or would it be in the next quarter?

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- Pankaj Patel** I mentioned in an earlier question also that we are expecting the transdermal inspection and in fact we received some intimation. However, because of some urgent inspections, they postponed the inspection and now we expect that to happen next quarter.
- Krishna Prasad** You mean next quarter July to September quarter.
- Pankaj Patel** That's right.
- Krishna Prasad** As far as US launches are concerned would you think Asacol is an approval we expect during FY14? Would that be a fair assumption to make?
- Pankaj Patel** It is very difficult for me to say which approval will happen in FY14. It's very difficult we don't have clear visibility today to even tell you that when exactly this will happen. We are trying hard to get approval soon but we don't know exactly when? If we are closer to the approval we will definitely let you know that we are likely to get approvals but today I don't see that sign.
- Krishna Prasad** And as I look at the raw material cost for the current quarter it is possibly the highest level that we have had in the last four to five years. How do we really look at this now going forward? Do you think this is the gross margin level that you would have for may be another couple of quarter?
- Pankaj Patel** I think we would have this kind of situation and it is mainly driven by higher cost at US and our joint ventures, particularly Hospira.
- Krishna Prasad** So we would continue to see that at these levels?
- Pankaj Patel** Four-five quarters before we kick off additional sales in US.
- Krishna Prasad** So additional sales in US is really more in second half.
- Pankaj Patel** That's true.
- Krishna Prasad** When you say EBITDA margins would remain at close to 18% levels, that you have seen this quarter, are you really talking about including the impact of pricing policy?
- Pankaj Patel** Including the impact of the pricing policy.
- Moderator** Thank you. The next question is from the line of Anubhav Aagrwal from Credit Suisse. Please go ahead.

Anubhav Agarwal	Just two questions. Can you give us the cash tax rate, you have taken a credit but what have we actually paid as a cash tax rate for FY13 as a year?
Vishal Gor	The cash payment would have been moved by 90 crores compare to what you have seen in the P&L. It would be roughly Rs. 220 crores.
Anubhav Agarwal	Just the other comment you made on Lialda. On Lialda litigation is the next hearing date set or what is the update on the case. I don't see any update on the case for very long time.
Pankaj Patel	The hearing dates are not fixed yet. We were required to submit additional data to FDA which is being submitted now and once that is done the dates will be decided.
Moderator	Thank you. The next question is from the line of Grishma Shah from Envision Capital. Please go ahead.
Grishma Shah	The question is regarding the Zydus Wellness given that we are on track to achieve 500 crores next year, what is the next target for us and how do you see this company shaping?
Pankaj Patel	Please wait for a while we will let you know.
Grishma Shah	Of the \$3 billion you are targeting for Cadila how much it would come from Wellness?
Pankaj Patel	You are indirectly asking me the same question. We are going to give you the guidelines. We always do this once we reach closer to our vision milestone, we would announce our next vision milestone and we would be doing that in the third quarter of this year.
Moderator	Thank you. The next question is from the line of Sriram Rathi from AnandRathi. Please go ahead.
Sriram Rathi	Basically one question on other operating expenses SG&A expense which is more or less around 32% this quarter, lowest in the past two years from the average of around 30-35%. Any particular reason for the same?
Ganesh Nayak	In the last quarter, we have made certain regrouping when we made the financial results for the entire year so you would have observed that even in third quarter also we have regrouped certain other expenses and that is the kind of run rate which was there for the last three or four quarters.
Sriram Rathi	Basically just wanted to check that this is going to be the base in terms of the SG&A expenses going forward.

Pankaj Patel Yes.

Annirudha Joshi I have questions on Zydus Wellness, can you please indicate we had a very strong quarterly numbers this time so actually which brands are doing better and can you just update on that and what was the volume growth as well as the price led growth in case of the Zydus Wellness per se?

Pankaj Patel Overall all the brands are doing well. I don't have an exact breakup of price and volume growth. I would request Vishal to provide you that.

Annirudha Joshi But can you just give the highest growth I guess probably in case of Sugarfree and the lowest growth is in the case of Nutralite, is it right?

Pankaj Patel That's right.

Annirudha Joshi Have you taken any price hike recently on any of the brands?

Pankaj Patel We have taken some price increase and as I told Vishal would provide you the information.

Annirudha Joshi Regarding this change in income tax treatment so that will now the MAT credit it will get moved on the balance sheet?

Vishal Gor It will be routed through P&L only. So if your question is on tax rate on Zydus Wellness you can take the current annual tax rate as indicative of even future.

Annirudha Joshi So roughly we can assume, the tax rate will remain to the extent of 10-11% only.

Pankaj Patel Yes.

Annirudha Joshi Lastly we have seen sharp fall in raw material prices like palm oil as well as packaging material prices are also lower. So do you see the profitability in the institutional sales of Nutralite as well as retail sales of Nutralite has gone up substantially over there.

Ganesh Nayak Not significantly.

Annirudha Joshi Have we passed it on to the consumer?

Pankaj Patel Some part of this goes to the customer as well.

Moderator	Thank you. The next question is from the line of Ennette Fernandes from PhillipCapital. Please go ahead.
Ennette Fernandes	My question is again largely with respect to Zydus Wellness specifically to Everyuth Brand. What I observe is that post the brand relaunch the MRP prices have moved up from Rs. 65 earlier to almost Rs. 95. Is my understanding right on that?
Pankaj Patel	You are asking too much specific questions and it will be impossible for me as a chairman of the company to answer a specific questions, May be Vishal can provide you those specific information. So I would request everybody if you have specific questions, please do take up with Vishal. He will be happy to provide you information. If there are more strategic related questions, then do please ask me the question I would be able to answer.
Ennette Fernandes	Let me just rephrase this I just wanted to understand whether we would see incremental margin improvements in the Zydus Wellness going ahead post the brand relaunch of Everyuth?
Pankaj Patel	We don't see the margin improvement going forward.
Moderator	Thank you. The next question is from the line of Rashmi Sancheti from Sunidhi Securities. Please go ahead.
Rashmi Sancheti	I just want to know how do you see ramp up in Bayer JV products in India and how many products have you launched?
Pankaj Patel	Last year we did not launch new products in Bayer JV. We would be launching new products this year.
Rashmi Sancheti	So how many products are expected this year?
Pankaj Patel	Two products we are expecting to launch in Bayer JV in this year.
Rashmi Sancheti	Just one clarification, how many products have you launched in India which you have told earlier. You have launched around 90 new...
Pankaj Patel	We have launched more than 90 products including brand extension during the last year.
Rashmi Sancheti	And how Many were Day-1 products?
Pankaj Patel	Day-1 first on the market, we have some close to about 20 products which were Day-1.



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Rashmi Sancheti In the emerging markets you have launched 30 new products?

Pankaj Patel Yes.

Moderator Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the floor back to Mr. Ganesh Nayak, over to you sir.

Ganesh Nayak Thank you very much and look forward to interacting with you again during the next quarterly telecom in the month of August.

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