



“Cipla Limited Q4FY13 Earnings Conference Call”

May 29, 2013



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Moderator: Ladies and gentlemen, good day and welcome to the Cipla Q4 FY13 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Krishna Prasad from Kotak Securities. Thank you. And over to you, sir.

Krishna Prasad: Hi, good evening everybody and welcome to the fourth quarter Cipla earnings conference call. We have with us today Mr. V.S. Mani, who is the Chief Financial Officer and Mr. Ajay Luharuka who is the Head of Treasury. I would now hand over the floor to Mr. Ajay.

Ajay Luharuka Thank you Krishna. Good evening to all of you and welcome to the fourth quarter earnings call. We hope you have received the financials, and the performance highlights available on our website. We would like to give you an overview of the financials, which can be followed by a question-and-answer session.

During the current quarter, the company posted a growth of about 5% in income from operations. Domestic sales grew by more than 5% and export sales grew by 4% for the quarter. While the growth in the current quarter has been low, the entire year has shown robust growth both in terms of top line as well as bottom line. Domestic sales have grown by about 15% for the year and exports by 20%, while profit after tax has grown by 34%. On the operating margins front, the margins for the quarter have increased by 3% and profit after tax at Rs. 268 crores was lower by 8% on a year-on-year basis. Material cost has decreased by more than 3% mainly on account of changes in product mix coupled with increased realizations. The increase in staff cost of about Rs. 73 crores is due to annual increment as well as increase in manpower. And other expenditure has increased by Rs. 46 crores for the quarter mainly on account of increase in travel expenses, professional charges, etc. Tax for the year is higher because of higher profits on a full year basis and the company has provided for tax as per normal provisions under the Income Tax Act. Last year the company had provided for tax under MAT. Further, an increase in surcharge by 5% has resulted in higher provision for deferred taxes. The capital expenditure for the quarter which includes routine CAPEX is about Rs.135 crores, resulting in an annual aggregate CAPEX of Rs.700 crores for the year which includes Rs.300 crores towards new office space. The capital expenditure for next year is expected to be

around Rs.400 crores including routine CAPEX. Besides this there could be a rollover of the previous year CAPEX of about 100-150 crores and the major projects which are under execution are the R&D facility at Vikhroli and the API facility at Patalganga. On the FOREX front, as of 31st March 2013, the amount of forward contracts is about \$210 million which substantially covers the outstanding debtors. During the quarter, the company has gained Rs.18 crores on account of foreign exchange gains.

With this overview, I would like to leave the floor open for questions. Mr. Mani and myself are available to answer any questions that you have. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from Monica Joshi from Avendus Securities. Please go ahead.

Monica Joshi: Ajay, your CEO was on television sometime back and he mentioned something about going into a next phase of investments that could set back your margins. Would it be possible for you to throw some light on this because it seems that your CAPEX is not really that high? So what was he really talking about?

V.S. Mani: This is Mani here. Basically, he was talking of key investments in terms of any kind of R&D.

Monica Joshi: What is it? What are the geographies? And R&D, is it front-ending

V.S. Mani: Not front-ending. Front-ending is a separate part, more in terms of building a pipeline to take care of the future:

Monica Joshi: What would be your R&D as a percentage of sales then?

V.S. Mani: Right now, it is a little over 4-4.5 or whatever, and we expect it to increase by about a percentage or so. That is what he was trying to indicate.

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

Aditya Khemka: First of all, Mani sir, could you just repeat the FOREX gain number, in which line item is that included in?

Ajay Luharuka: FOREX gain for the quarter is 18 crores and it is included in other income.

- Aditya Khemka:** In the pharma policy that has been notified, now we have the contours. So, have we done internal assessment of what the impact of such a policy would be on Cipla's domestic sales given that the policy is notified now?
- V.S. Mani:** While the policy has been notified, the prices of drugs are yet to be notified. So the real impact can be ascertained only at a later stage. But what we do understand is although the new policy will impact the company may be negatively in a short-term, the company is working on identifying opportunities. We do have a broad set of these molecules that could be covered in terms of volume growth in order to partially offset the impact of this policy. I think we would look at this as an opportunity to see if there are some other products where we can at least offset some of the negatives that come on a broader basis.
- Aditya Khemka:** The policy also covered some contours regarding dues for overcharging as has been alleged in your case by the NPPA and how the dues would be collected or would be put in an escrow...
- V.S. Mani:** I do not think so because our case it is sub judice and is there with the Supreme Court, so I do not see any reason how the policy can overrule that.
- Aditya Khemka:** So you think in your case at least the litigation with NPPA...
- V.S. Mani:** That is right, that is separate.
- Moderator:** Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Guys, just on Medpro acquisition, can you explain slightly some of the revenue and cost synergies that you think and it would be great if you could quantify some of them.
- V.S. Mani:** It is too early in the day to really say. One thing is there for sure that 90% of what they sell is the products that we give. So in that sense we have a great view in terms of what is the market and what are the products and what are there in that place. But I would assume that this would greatly help us in terms of running a front end out of Africa and South Africa being one of the key markets that this would really probably boost us big time. So that is what it is, but it is too early in the day to really say whether we can do too much of synergies out of that but we do see it adding

substantially to our top line and bottom line in the long run. So that is what we are looking at.

Anubhav Agarwal: Just trying to understand slightly more. So cost synergies, would you say it would be fair that it would be very limited in scope, because anyway there are suppliers there so.

V.S. Mani Yeah, that is one part, but then today what is happening, whatever products they are looking at are the products which we are selling to them. When we integrate with them and we are a company that will run that company then at that point of time obviously, we will be able to look at the market better and we would be in a position to really get products into that market which may boost the revenue further.

Anubhav Agarwal: So are you looking to use this as a softstick as a base to enter other African markets?

V.S. Mani: We are anyway present in most of the African markets. And I am sure most of us know that we are probably the largest Indian pharma company in African markets. But I think the complement is very good between us and Medpro and also products do quite well in Africa and we have a good brand image out there. So obviously, all this will go a long run in kind of enhancing our market in Africa.

Anubhav Agarwal: You do talk about getting into Brazil, Turkey, Japan market. Just a question, why not an acquisition in US? You could cut short your entry time to the US. You are not looking at acquisitive route to US, you are just working on building a pipeline organically right now. Is that the focus?

V.S. Mani: Right now, that is the focus, but we will evaluate all opportunities that come across, it is not that we are saying yes or no to any of these, but we will see the opportunity that come across because when you say Brazil or Turkey, we feel these are markets where it is complementing some of the products that we have. I am not saying that US we do not have products. But only thing that such a lot of work is being done basically what we are doing that. So that could complement the US market well.

Anubhav Agarwal: What is your sales growth guidance? Mr. Saxena mentioned it is double-digit.

V.S. Mani That would be correct, our sales growth should be in double-digits.

Anubhav Agarwal: Is it more than 15% or less than 15% what you are guiding?

- V.S. Mani** We are not in a position to really tell you right now but I would assume that it should be a healthy double-digit.
- Moderator:** Thank you. The next question is from Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** My question relates to the new drug policy. All this API will be out of price control and formulations will face a pricing pressure. So will it affect the margins in a substantial manner?
- V.S. Mani:** While I do appreciate your question, I have to tell you that the policy is not yet fully notified, the prices we do not know, but yes, everybody assumes that there will be some impact and numbers keep floating anywhere from 5 to 7%. But at the end of the day I think the large players at least are looking at if at all there is a price cut they would look at how to increase the volumes. Obviously, there are smaller companies who sell at a lower price and today if you are able to get to the lower price, volumes of yours could boost. So people are looking at these kinds of opportunities to enhance their market share.
- Ranjit Kapadia:** And will it be possible for us to take immediately the price increase in API?
- V.S. Mani:** What do we do with API, in the sense we do not really sell API in the local market, right. We are only manufacturing or purchasing for captive consumption. local market API is pretty limited.
- Moderator:** Thank you. The next question is from Vivek Agarwal from MP Advisors. Please go ahead.
- Vivek Agarwal:** I just want to know, how much peak sales are you expecting for Etanercept that you have recently launched in the domestic market?
- V.S. Mani:** We have just initially launched right now. It will take a little time to really understand how this product will do. I think it is pretty early in the day to really say. It is more to say that we also have got into biosimilars and probably that is the entry point of this.
- Vivek Agarwal:** And how much sales have you booked for Dymista during the quarter and how is this product shaping up in US and Europe?

- Ajay Luharuka:** Dymista is building up. It is an NDA like we mentioned earlier. The actual figures we cannot disclose because of confidentiality reasons, but yes, it is doing well and we expect it to pick up in the coming year.
- Vivek Agarwal:** Any milestone payment that is booked during the quarter?
- Ajay Luharuka:** Nothing, there is no milestone on Dymista for the quarter.
- Vivek Agarwal:** A number of ANDAs that is pending in the US?
- Ajay Luharuka:** You are talking of the past or current year?
- Vivek Agarwal:** Total ANDAs that are pending.
- Ajay Luharuka:** In the current year we filed 6 ANDAs on our own. But if you want to know on an overall basis there are about 26 own ANDAs filed in the US and we have 18 approvals, therefore there are about 6 that are under registrations right now.
- Moderator:** Thank you. The next question is from Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** There was some commentary on some tenders getting delayed. Just wanted some color on that. And is that why the APIs have not done in the export market?
- V.S. Mani:** Yeah, partly, you are right. There are two reasons. Obviously, in the Formulations segment some of the antimalarial, as you know the tender business sometimes get shifted across months and it shifts from one quarter to the other quarter. And also some of the API got kind of shifted again from this to the next quarter.
- Girish Bakhru:** But these are pertaining to which market exactly?
- V.S. Mani:** This would be to African markets. That could be the main one.
- Girish Bakhru:** Just to get a clear sense, so these timing will be more or less now in FY14, right. So, essentially lot of these revenues which have kind of shortfalled will come in FY14?
- V.S. Mani:** Yeah, surely, it will come over a period of time.
- Girish Bakhru:** Any color on the Domestic Formulations guidance? Where do we see that in FY14?
- V.S. Mani:** We see a healthy double-digit growth. We see it doing quite well. While the last quarter was not so good for everybody but we did better than the market; we did

about 11% as against 9% in the market but first quarter at least for a few months have been quite encouraging. So we see it at a healthy double-digit for the full year.

Girish Bakhru: Can you confirm if Dymista has been launched in Europe? I am not sure.

Ajay Luharuka: We are looking for a launch in the current year.

Girish Bakhru: Any specific timelines are there or is there some evaluation process? The approval has come in January, right, so there has been a lot of delay in terms of launching the product.

Ajay Luharuka: There is a strategy which we will work out with our partners, so it will be launched in due course, and we would not like to really put up a time line for that.

Moderator: Thank you. The next question is from Jesal Shah from JM Financial. Please go ahead.

Jesal Shah: Just a quick one on your export business. If you can give us a flavor of which are the territories that you are currently selling to, what is our proportion there. And for the coming year what will be the growth driver? Which markets will drive it?

V.S. Mani: If you really look at it, out of the total export market, if I have to take about 30% would be out of Africa and US and Europe would be roughly close to about 40%, rest of it is spread over the other territories.

Jesal Shah: As you look at your next year, what do you think will drive the business?

V.S. Mani: One is obviously our Africa business should do better and also with this Medpro acquisition we should get some further revenues out of that at least a few hundred million, that is one part. But the bigger one would be like the kind of front ending we are now building up in Europe, that trajectory should take care and in course of the next year that should do well. And somewhere as you all rightly are looking at it, Dymista, if you look at it, the partner is also building up, so we are looking at some sales, that also is coming up. And obviously, a couple of key approvals comes through we should be doing better, we do see it as a good positive.

Jesal Shah: In terms of the strategy for the API business, are you actively wanting to market products let us say...

- V.S. Mani:** We definitely like to look at niche products. Obviously, we do not want to do the run-off-the-mile one, they do not make too much money but I think compared to last year this year you will definitely see a much better focus in API and we would definitely see it growing.
- Moderator:** Thank you. The next question is from Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** On the US business, when you say you are expecting a couple of approvals to come through, you were talking about the US business?
- V.S. Mani:** It will be both, largely some of the US business, yes, definitely we do see a couple of approvals.
- Nitin Agarwal:** So these are some of the niche opportunities like the way Lexapro came through last year?
- V.S. Mani:** Not Lexapro, it will not be the same, it will be much smaller.
- Nitin Agarwal:** We have seen a significant increase in staff cost over the last two years. And as a proportion of sales, it has gone up about 300, 400 basis points over the last two years. When do you see the scale is actually playing out here, the cost stabilizing and then the leverage playing out?
- V.S. Mani:** Basically the whole idea is that because of what we are trying to do in terms of front-ending, in terms of talent that we are doing, obviously, this is a different strategy of Cipla than what it used to be in the past. But, obviously, this is another way of looking at investing in people. So, we look at it as a part of our margins are being invested in terms of people. So if you look at the overall staff cost as a percentage to sales, we are coming closer to our peers. In the past, there used to be a lot of difference. There would be 3-4 percentage point difference between us and the peers in terms of staff cost to sales. Now it is coming closer. But I think this is kind of a thing that we do feel that if we want to grow in the long run we need to do this.
- Nitin Agarwal:** But it should stabilize around 12-13% or you see it sort of increasing?
- V.S. Mani:** 0.5 or 1% up, but that is where it should stay, it should not go beyond that.

- Nitin Agarwal:** On the domestic business, you talked about 11% growth in the Branded Formulations business while the overall growth was 5%. So was there a sort of decline in the Generic business?
- V.S. Mani:** Yeah, you are absolutely right, the generic business was down and as did the whole generic market in general, because of the DPCO and all that, maybe there was a certain amount of nervousness market for generic generic but the branded generic did about 11%.
- Nitin Agarwal:** For the year what would have been growth for the Branded business?
- V.S. Mani:** Branded business would have done about (+15%) for the full year.
- Nitin Agarwal:** And the generic business?
- V.S. Mani:** Generic also, the first 2 quarters were pretty good; 12-13% I think.
- Nitin Agarwal:** Lastly, in the last two years we have taken some write-offs and provisions, bad debt provisions. Has there been some more write-offs in the last quarter?
- V.S. Mani:** No, very small one, nothing so major. I think the clean up or whatever we did in the past are all done.
- Moderator:** Thank you. The next question is from Rashmi Sancheti from Sunidhi Securities. Please go ahead.
- Rashmi Sancheti:** Can you give the operating income break-up, how much would be the tech income from operating income?
- Ajay Luharuka:** The total operating income for the quarter is around 60 crores, of which a major component is the technical know-how fee, which is about 39 crores, then we have export incentives and other incomes.
- Rashmi Sancheti:** And how much is the tax rate guidance for FY14?
- Ajay Luharuka:** It will be around 25%.
- Rashmi Sancheti:** And how much has Indore SEZ contributed and what is the capacity utilization currently?

- Ajay Luharuka:** Indore has contributed roughly about 10% of export sales and in terms of capacity utilization certain dosage forms will be highly utilized like the tablet capsules, some of the other dosages are still to be utilized.
- Rashmi Sancheti:** What is the capacity utilization over there, is it running above 70- 75%?
- Ajay Luharuka:** It will totally depend on the dosage forms like I mentioned, it will depend on the line utilizations, etc. So, it will be difficult to put overall figure to the capacity utilization figure. I can mention in some cases it is very high and in some cases it will be low.
- Moderator:** Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Just one follow-up question. On the receivable days, they have fallen from 80 days to almost 74 days and they have been on a falling trend for last 3-4 years. Let us say specifically for FY13, which business segment led to this decline in receivable days. Do you attribute it to the exports formulations or the API business?
- V.S. Mani:** It will be obviously in the export formulation because domestic remains where it is. So export formulation is where over the years, as one of your other colleagues had asked the question on the write-off, so we have done a lot of discipline and that is how it has come down.
- Anubhav Agarwal:** And within export formulation would you attribute it to African market because let us say your...
- V.S. Mani:** Overall thing and also the rationalization effect which we spoke of a couple of quarters back, all that has added to it.
- Anubhav Agarwal:** So mainly you will attribute it to African market.
- Moderator:** Thank you. The next question is from Chirag Talati from Espirito Santo. Please go ahead.
- Chirag Talati:** Firstly, does this double digit guidance include Medpro contribution?
- V.S. Mani:** That does not include that.
- Chirag Talati:** So it is organic, it is ex of Medpro.

- V.S. Mani:** Yeah.
- Chirag Talati:** And secondly, Indore SEZ, where is it stuck because for 9 months you had suggested it had 400 crores out of revenues, now it is 520 odd crores. So the quarterly revenue run rate has either gone back or just stagnated at 120 crores. How should we look at it actually?
- Ajay Luharuka:** I am not sure from where you got this 520 crores figure.
- Chirag Talati:** Sorry, 800 crores, okay. But then that means that 400 crores has been added in the fourth quarter, is that a fair assessment?
- Ajay Luharuka:** It is in the region of 600-700 crores, and as we keep going forward, in fact, we also mentioned earlier that Indore is towards keeping facilities invested for the future and it is like this, every pharma company has this dilemma where whether you build business first and then look out for capacities or you build capacities in anticipation of business. So we did do a capacity building much earlier in 2001-03 which helped us a lot in terms of the business growth. Similarly, when we reached a near capacity in a couple of years back, we took a call to build up Indore which will satisfy all our business requirements going forward for the next 2-3 years. And we have said that there will be a gestation period involved and there will be a gradual ramp up on the Indore capacity going forward.
- Chirag Talati:** Have all requisite regulatory approvals, are they all in place now, US, Europe and other key markets?
- Ajay Luharuka:** Yeah, we have got the approval from WHO, from MCC, from MHRA and US is also happening.
- Moderator:** Thank you. The next question is from Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** If you can give the ARV outlook and the number of MRs in the domestic market.
- V.S. Mani:** In terms of the ARV outlook, we feel it is quite okay, in the sense while we are being more selective in terms of what kind of business we get into but another thing that you need to know is that Cipla Medpro got a large tender. So that will also be happening somewhere during the course of this year. So obviously, the ARV outlook looks quite okay, I do not see much of an issue. The number of MRs in the domestic market will be in excess of 7,500.

- Moderator:** Thank you. The next question is from Sriram Rathi from Anand Rathi. Please go ahead.
- Sriram Rathi:** On the operating margins, we have seen that it has been declining over the past two quarters. And now it is anticipated that R&D cost will also increase by 100 basis points. Does that mean that going forward in FY14 we will see some kind of decline in operating margins for future CAPEX especially for future pipeline?
- V.S. Mani:** There are two ways of looking at it. Obviously, there is a guidance that is given but what we are trying to say is that obviously even last year when you decline, in one or two quarters, there was a good bump up because of Escitalopram, the last two quarters did not have so much or last quarter absolutely had nothing. So obviously, we have always had operating margin of about 21-22, so we are not too way off from there. Even when we say we signal that 1% or so will be a future growth it would be something that people should take it little positively because that means you are very serious about what you want to do about building a pipeline and taking it in the future. So I think overall if our sales growth is reasonably good and we are able to, on an aggregate basis, have a good margin. A percentage should not matter too much for Cipla at a phase when we are seriously trying to do growth; there is no point having a big front end in acquiring companies and all that and you do not have a pipeline. So obviously, you need to spend on the pipeline if you want to make all the other efforts that you make a big success. So that is how we take it.
- Sriram Rathi:** So basically this quarter margin is more of a sustainable kind of margin excluding the R&D extra spend?
- V.S. Mani:** That is right. Say a few points up and down but it is quite steady.
- Moderator:** Thank you. The next question is from the line of Khushboo Patwari from Subhkam Ventures. Please go ahead.
- Khushboo Patwari:** I just want to know that do we see any other opportunity coming up like that of Teva going forward for Cipla like they had for supply of products?
- V.S. Mani:** Like Escitalopram, we do not see it right away, but obviously, smaller opportunities and that would always be in the offing.

- Khushboo Patwari:** You also mentioned that the tender business in this quarter was slow and it has got shifted. So do we see a considerable shift in Q1FY14 or will it be any time to be seen in FY14?
- V.S. Mani:** It will be spread over two quarters. It is not like there is substantial shift off. If you look at 5% because another 5% growth you are talking about \$20-25 million, it is not very big actually if you really ask me. So it is not like some huge amounts got shifted from this quarter to the next quarter. We see some marginal amounts getting shifted over the quarter and it is natural part of this business.
- Khushboo Patwari:** Then on the operating front, taking the question ahead from the earlier participant, if one has to take a rough estimate at how would we develop in a margin front, how should one look at it, similar basis of FY13 or some improvement in that end?
- V.S. Mani:** If you look at FY13 in the last quarter or on an average we have always done 21-22%. So it will always range between 1-2 points up and down. But at the end of the day what we are just trying to tell and what this was signaled is that a small percentage of that we would like to build towards the pipeline. And I explained to another participant earlier there is no point in us doing a lot of other activities when we do not want to work on our pipeline. So obviously, all will complement with each other.
- Khushboo Patwari:** This question came in rightly because in Q4, we suddenly saw a dip in the margins to around 20%. So that is why I was wondering- that how should one look at margins, what should be...
- V.S. Mani:** Margin is not exactly 20%, it is closer to 21%. If the sales were a- little bit on the higher side obviously, the margin would have looked a little more higher. So it is a little play on what kind of sales growth we have. While this quarter has been a little low on the growth side, if our growth was closer to what we have historically done; we have done at least a minimum 10%, so the margin should be better then.
- Khushboo Patwari:** Your debt it seems has got increased in this quarter. It seems like you are reporting it. It is higher than what was there in H2?
- Ajay Luharuka:** This is basically towards the working capital of short term nature.
- Khushboo Patwari:** Because we saw a considerable increase in interest cost also. So that debt number has increased in this particular quarter.

- Ajay Luharuka:** But there is also corresponding increase in other income because of our investments.
- Moderator:** Thank you. The next question is from Nitin Agarwal from IDFC Securities. Please go ahead.
- Nitin Agarwal:** You talked about investments in front-ending. We obviously are aware of the Medpro acquisition. Can you give us some more sense of the kind of transformation as far as the front-ending bit is concerned? Which are the different geographies and the kind of initiatives you have taken over the last couple of years?
- V.S. Mani:** While front-ending means building up your presence through people and those kind of things in various markets. So if you look at it, Europe, we have put up a decent team out there and obviously again we have started our initial activities in the US also. So these are the kind of markets where we are seriously working on putting up people on ground and having your own subtype of thing out there and people helping you out. So, what it will do is in the past we were getting orders and we were more of a supplier, so you are trying to know build up position where you would be more in the market with your ground presence on that.
- Nitin Agarwal:** Outside of Europe and US, are there any specific geographies that you guys are focusing on for creating your own presence?
- V.S. Mani:** Obviously, there would be some of the markets that we have mentioned would be like Brazil, Turkey, Russia, so these are the kind of markets we will work on.
- Nitin Agarwal:** In the US what is the sort of targeted filing for ANDAs for this year?
- V.S. Mani:** It will be definitely 50% more than what we are filing now.
- Nitin Agarwal:** About 8 to 10 ANDAs?
- V.S. Mani:** Closer to that number, yeah.
- Nitin Agarwal:** And when you look at the mix of ANDAs between the ANDAs pending approval of your own filing and between the partner ANDAs that probably some of that you got for yourself, what is the pending total ANDAs that are there which are available for your business right now?

- Ajay Luharuka:** Nitin, can I get back to you on the exact figure because I would not have a specific breakup but as you are aware that the own ANDA filings have actually only started in the last year, bulk of it is through the partner which were earlier done.
- Nitin Agarwal:** A fair number would be 40, 50 ANDAs which are pending approval or is that a higher number?
- Ajay Luharuka:** I do not have the exact figures. Can I get back to you on that please?
- Nitin Agarwal:** Sure, and lastly, on the debt that you have raised I guess some of that would be probably used for funding the Medpro acquisition. What would be your typical cost towards the debt?
- Ajay Luharuka:** Sorry, just to clarify that, it is a pure short-term nature for working capital purposes, so it would not be used for funding the Medpro transaction. And in terms of cost, Cipla would be getting the best cost in the market among the lowest.
- Nitin Agarwal:** For the debt that you are going to raise for the acquisition?
- Ajay Luharuka:** No, what we said is the acquisition per se will be primarily financed by internal accruals and cash resources. And the debt which you see right now is basically towards working capital requirements.
- Moderator:** Thank you. The next question is from Kesvi Suri from Span Capital. Please go ahead.
- Kesvi Suri:** You started filing in the US since last year on your own account, could you just throw some more light in terms of the nature of these filings? Are you looking at starting out with a bunch of plain vanilla generics and then moving up the value chain or really want to get into really niche and complex opportunities, could you throw some light that will be great?
- V.S. Mani:** It will be a combination of both. Some will be plain vanilla generic and some which will be obviously a little bit more complex.
- Kesvi Suri:** Of the filings done till date on our own, what has been the spread like, just broad contours?
- Ajay Luharuka:** As we mentioned, again, was that in the last year we filed 6 ANDAs on our own otherwise most of it was through partners, some of it would have come back to us

because of business combinations but purely own filing which we have done in the last year was around 5.

Kesvi Suri: These would have been pure plain vanilla for your start up?

Ajay Luharuka: We would not be able to mention the specific product, but yes, these would be niche areas where we have value additions.

Kesvi Suri: Could you throw some light on your strategy for biosimilars? You started with the launch in India. And how do you plan to see it panning out for you? Where do you see it for you in 3-5 years?

Ajay Luharuka: In terms of biosimilar products, the clinical and the regulatory work in India is in progress. And depending on the regulatory approvals, the trials maybe completed in the next couple of years and we would look to launch a couple of products in India. Once it is launched in India, we may eventually look for launch in other markets and of course this would depend on again the regulatory approvals going forward.

Kesvi Suri: So right now you have about three programs underway, is my understanding correct or how is it for India?

Ajay Luharuka: No, there are other products which we are working upon but what we expect is that a couple of products will be launched in the India market in the next couple of years.

Kesvi Suri: If you take a longer term horizon, you will still have that kind of order-based manufacturing for the regulated markets which you have been doing till now. You have the domestic market which was pretty strong for you. And now you are starting on this footprint, probably about 3-5 years down the line, what would the tentative mix of the business be like? And do you see probably areas where there could be a conflict of interest in terms of manufacturing for customers and you and allocation of capacities for the same?

V.S. Mani: That would be too broader a question, what more one could look at is like okay, you would more look at it saying the geographies may change, it maybe 30% in India, still growing well, 70% maybe overseas that would be one way of looking at it. And as far as the other aspects go, whether you are talking of mix of biosimilar, I am not sure, it is too nascent I think, not too many companies in India have really launched all these, so I think you will have to give it some time before you can really throw more light on these.

- Kesvi Suri:** My question was not just about biosimilars, it was more about say what kind of size you would like your own US and Europe businesses to be in, in addition to the existing exports what you are doing, or probably percentage wise would be great?
- V.S. Mani:** Little initial days. While we are having a good look at those markets, but pretty initial days to really give you a big number on that. So I think we would rather wait for a couple of quarters and see how the things pan out before we really give you a visibility on that.
- Moderator:** Thank you. The last question is from Bino Pathiparampil from IIFL. Please go ahead.
- Bino Pathiparampil:** This Medpro acquisition, when do you expect to do the closure and start consolidating numbers?
- Ajay Luharuka:** The closure is likely to happen in the second quarter of this year, and in terms of consolidation it will happen only in March; of course, it will be for the proportionate period.
- Bino Pathiparampil:** So after the closure you would not be reporting consolidated numbers for the quarter?
- Ajay Luharuka:** We will be reviewing and we will take a call in terms of how the reporting will happen at that point of time.
- Bino Pathiparampil:** The tax rate for this year was around 26%. Should we expect a similar consolidated...?
- V.S. Mani:** 25% should be there.
- Bino Pathiparampil:** On Advair approval in Europe, is there any update there? I think we were expecting it by early this year.
- Ajay Luharuka:** In terms of what we have been guided by our team the progress is on track and we expect the approvals in next couple of years, but we are completely aware that it is a moving target, so it will be difficult to put a specific timeline to it.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to Mr. Krishna Prasad for closing comments.
- Krishna Prasad:** Thank you all for attending the call. Ajay, would you want to just make a closing comment?

V.S. Mani: Mani here. I thank all the participants and definitely it was a good call we had and thank you very much.

Moderator On behalf of Kotak Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.