



“Cipla Results Conference Call”

November 15, 2011



MODERATORS: MR. S RADHAKRISHNAN – WHOLETIME DIRECTOR
MR. V. S. MANI – CFO.
MR. AJAY LUHARUKA.
MS. PRITI ARORA – KOTAK SECURITIES.

Moderator: Ladies and gentlemen, good day and welcome to the Q2FY12 Results Conference Call of Cipla hosted by Kotak Securities Limited. As a reminder, all participants' lines will be in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the 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 Ms. Priti Arora. Thank you, and over to you.

Priti Arora: Hi good evening everyone thanks for joining in. We'll begin the call with opening remarks from Mr. Radhakrishnan, followed by Ajay then who would provide us with financial summary update. The call will last 30 minutes. Over to you, Mr. Radhakrishnan.

Radhakrishnan: Thank you, Priti. Good evening to everybody. Welcome to the Cipla's call. Today we are pleased to inform you that the Board has appointed Mr. V.S. Mani as the CFO of the company as part of broad-basing our organization structure. Just to recap, Mani was earlier in Cipla and has had his positions in other Pharmaceutical companies. He left Cipla in 2002 and he is now back with Cipla. And he will be assisting us in the finance area and he is designated as CFO of the company from today. So I welcome him also for this call and he is part of this call. So that's what I would like to convey and I'll now would like to give the phone to Ajay.

Ajay Luharuka: Thank you, good evening to all of you and welcome once again to the second quarter earnings call. We hope you have all 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 more than 11% in income from operations and 10% in sales. Domestic sales grew by about 12% and export sales grew by about 10%. Operating margins as a percentage to income from operations have increased by about 2% on a year-on-year basis. This is primarily due to reduction in material cost on account of improved realizations as well as reduction in input cost of certain category of products and changes in product mix. Further, the material cost is lower on account of higher cost efficiencies as a result of increased utilization of the Indore SEZ facilities.

Excise duty on sales has increased by Rs.17 crores due to increase in the duty rate by about 1% as well as increase in dutiable clearances. The increase in staff costs of about Rs.50 crores is primarily due to annual increments and increase in manpower. Other expenditure has increased mainly due to increase in factory expenditure, selling expenses and provision for doubtful debts. The tax for the current quarter has increased due to expiry of tax benefits of EOUs. The capital expenditure which includes routine Capex for the quarter is about Rs.130 crores and we expect to close the year in the region of Rs.500 to 600 crores.

As of 30th September, the outstanding amount of forward contract is about \$190 million, which substantially covers the outstanding debtors. I'm pleased to say during the quarter, the company had gained Rs.14 crores on account of foreign exchange gains. With this overview I would leave the floor open for questions. Mr. Radhakrishnan, Mr. Mani and myself are available to answer any questions that you may have. Thank you.

Moderator: Thank you. We will now begin the question and answer session. First question is from the line of Krishna Prasad from JM Financials. Please go ahead

Jesal Shah: Yes, hi, this is Jesal. So first of all, just to welcome Mani back here.

V.S. Mani: Thank you, Jesal.

Jesal Shah: Yes, so the question really is on the export business, if you can just give us some idea as to which markets are really driving this growth and if you have the market-wise breakup of exports please?

Ajay Luharuka: Jesal, the market-wise breakup is as follows; Africa is about 35% to 40%; Europe about 15%; America, that is North and South put together, about 25%; Middle East is about 5%; and Asia about 10%.

Jesal Shah: And also if you can just give us a breakup of the contribution from ARVs and antimalarials?

Ajay Luharuka: ARVs is roughly about 15% to 20% of the turnover and anti-malarials would be slightly lower around 8% to 10%.

Jesal Shah: Okay. And the second question is on the inhalers if you can give us an update in terms of filings in -- you know, the other markets in EU and -- you know, what the status is on the launches which you had in the recent past?

Ajay Luharuka: As regards our inhalers in Europe you are aware the company has 11 inhaler products for the European market and we have so far received about four approvals. The further six products, which are at various stages of regulatory approvals and we expect to file these very shortly in the current and next year. The products which we have already launched are Salmeterol in UK, Germany, Ireland and Poland and there are certain products, which are on the way in Germany. We feel that in the next couple of years, we should have some of the other products approved as well.

Jesal Shah: Okay. Thank you

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from IDFC Securities. Please go ahead.

- Nitin Aggarwal:** Hi, thanks for taking my question. I just want to check if I had get it right, you said Indore SEZ recorded some 150 crores of sales in the current quarter, now the sales would have been practically fairly negligible in last quarter, but if you look the export formulation numbers the sales are up only about 120 odd crores YOY, so how does this explain this is the non-Indore SEZ is the part of a export formulation business are growing?
- Ajay Luharuka:** Nitin, the contribution from Indore is 150 as I said, but this will include incremental as well as some of the shifting products from other units.
- Nitin Aggarwal:** But still I mean, that still doesn't really account to the fact that -- you know, overall sales and export formulations are only about 120 odd crores, so either there is most of the sales in Indore SEZ incrementally also going to be because of the shifting of products or how do we see growth going forward?
- Ajay Luharuka:** Nitin like I said, it is a mix of both. So for the, quarter it is 150 crores and overall for the six months, we have touched about 300 crores.
- Nitin Aggarwal:** Even when you people look at three months -- you know, our incremental formulation sales YOY are only about -- you know, but that doesn't too much of a change in that actually, so that's why I was wondering because most of the growth for us I guess what the expectation clearly or rather of above that, when we saw Indore SEZ there will be incremental amount of growth that will come in, but in the logical in the case of most of the Indore SEZ growth is going to be shifting of products or we will see incremental growth Indore really adding to the growth overall for the business?
- Ajay Luharuka:** Nitin like we said, the actually ramp-up of Indore will happen over the next three-four year period, when we reach optimum utilization, currently there will be a mix of shifting as well incremental growth, so there won't be the entire production which is incremental from Indore as of now.
- Nitin Aggarwal:** Okay. And so lastly on Forex what is the Forex that you mentioned?
- Ajay Luharuka:** 15 crores for the quarter -- 14 crores for the quarter.
- Nitin Aggarwal:** And this is the part of the other income.
- Ajay Luharuka:** Other operating income.
- Nitin Aggarwal:** Other operating income.
- Ajay Luharuka:** Yes.

- Nitin Aggarwal:** Okay. Thank you.
- Moderator:** Thank you. The next question from the line of Ravi Agarwal from Standard Chartered Securities. Please go ahead.
- Ravi Agarwal:** Yes, thanks for the good set of numbers. Just two questions actually one is on the gross margins clearly we've had one of the best performance in the last two years or so in terms of gross margins. Just I want to understand how much is it -- is this a sustainable trend over this the number which one can expect to come off a bit in the next couple of quarters?
- Ajay Luharuka:** Ravi, it's like this quarter-on-quarter there would be fluctuations no doubt, but for the year what we are projecting is that on the topline there will be a 10 to 12% growth and the bottom line would likely be in line with the -- you know, the six month period.
- Ravi Agarwal:** Okay.
- Ajay Luharuka:** This is of course keeping aside rupee fluctuations and other unforeseen circumstances.
- Ravi Agarwal:** The second question is on the FDA as far as the Indore SEZ is concerned, any update you'd like share as to where they are, have they come in, when are we looking at that segment to be inspected by the USFDA.
- Radhakrishnan:** We have not yet filed for Indore because we have Goa as an approved unit and we also have Patalganga and Kurkumbh. So at the moment we have not subjected Indore to the USFDA.
- Ravi Agarwal:** Any time lines you would like to share little bit moment?
- Radhakrishnan:** At the moment we have enough capacities outside Indore for USFDA. Maybe next year we would like to look at and review once -- you know, the inhalers are being looked at. So that's where we look at USFDA for Indore.
- Ravi Agarwal:** Okay. Thank you so much and best of luck.
- Radhakrishnan:** Thanks
- Moderator:** Mr. Agarwal, do you have any further question?
- Ravi Agarwal:** No, I'm fine thanks.
- Moderator:** The next question comes from the line of Girish Bakhru from HSBC Securities. Please go ahead.

- Girish Bakhru:** Yes, any reason why bulk business has declined?
- Radhakrishnan:** Our business is normally cyclical, it's not -- you know, it's based on the orders and such like things, this cycle on quarter the API was down, because API it is something which is depending on demand base and not really in any pattern. So overall we believe that there are enough potential in the API as we go along but this quarter has been down.
- Girish Bakhru:** Okay. And just I wanted if you can share the inhaler sales I mean how much is that in the export formulations, percentage of that?
- Radhakrishnan:** Roughly respiratory will account for about again 20% of our total sales.
- Girish Bakhru:** And the launches of inhalers like in Russia and South Africa, can you share how much tractions coming from there?
- Radhakrishnan:** Actually, Seroflo is doing significantly well; it's about £1.5 million for a quarter. As far as Salmeterol is concerned it's just been launched in the UK, and next quarter, we've believe it will be a significant opportunity.
- Girish Bakhru:** Okay. And off the respiratory pipeline overall you said that there are already four approvals and six in various stages, how many of these are like pure generics vis-à-vis your own branded products?
- Radhakrishnan:** Well, in the case of respiratory in the Europe we have only generics only because you know, branded in that sense for Europe, this will be because these are specifically generic products.
- Girish Bakhru:** Right, this from you know, broad kind of you were like recently we have seen Mylan acquiring Pfizer portfolio of respiratory. TEVA was also saying that generic inhalers are difficult to make especially for Advair. So your strategy overall seem it changed with the like last four, five years we have been trying to develop some kind of sizable filing in Europe. So in an given the regulatory hurdles have you seen some kind of change in strategy that you might do 505(b)(2) rather than pure generic?
- Radhakrishnan:** No, you are talking of that in the US, today we are looking at Europe, Europe is a different ball game, 505(b)(2) would be relevant for and what they are saying is re-US. Yes, we also would look at 505(b)(2) brings to US, there is no doubt, if that may not be generic, but in Europe it is different, Europe would be you know, more of a generic product launch.
- Girish Bakhru:** Fine I'll join back to queue.

Moderator: Thank you. The next question comes from the line of Vrinda Shah from MP Advisors. Please go ahead.

Vrinda Shah: Yes, I have two questions. One is can you give the domestic sales break up in terms of generic and branded sales?

Ajay Luharuka: Vrinda, generic will be about 15% to 20% of domestic sales.

Vrinda Shah: Okay. Rest will be the branded one right?

Ajay Luharuka: Yes.

Vrinda Shah: Okay. And can you share any impact of Zyprexa API supply in this current quarter?

Ajay Luharuka: Sorry, we didn't get your question, can you please repeat?

Vrinda Shah: Is there any impact Zyprexa API supply in this current quarter?

Ajay Luharuka: Can you please give us the generic name, Vrinda?

Vrinda Shah: Yes, OLANZAPINE.

Ajay Luharuka: OLANZAPINE, not much.

Vrinda Shah: Not much, okay. And sales of Indore facility how much sir, its 150 crore right,

Ajay Luharuka: 150 crore in current quarter, Yes.

Vrinda Shah: Okay. Thank you so much.

Moderator: Thank you. The next question comes from the line of Perin Ali from Edelweiss Financial. Please go ahead.

Manoj: Yes, good evening this is Manoj and congrats for good set of numbers. Sir, like you have indicated that, you have some gain in terms of material cost because of the Foreign currency movement. So, can you quantify what could be the approximate gain on the inventory because of this Forex movement?

Ajay Luharuka: Manoj, just to clarify, the material cost does not include any movements in the currency, it is due to improved realizations on the topline as well as reduction in the input cost of certain products and of course change in product mix. So, there is no impact of currency movement on the material costs.

- Manoj:** So, then going forward, apart from and maybe whatever the quarterly moment, otherwise we feel more or less this run rate could be sustainable?
- Ajay Luharuka:** Quarter-on-quarter obviously there will be fluctuations, but going forward if rupee depreciates this positive impact will definitely be there on the material costs.
- Manoj:** Okay. The second thing, like Teva has already started supplying OLANZAPINE in the U.S. market, and our understanding is that we are one of the API suppliers to them. And despite that we see that a lot of material impact has happened because of that OLANZAPINE supply. So, can you give some color on that?
- Radhakrishnan:** We are not supplying any OLANZAPINE to Teva.
- Manoj:** Okay, okay. And sir, any guidance on the tax front for year as a whole?
- Ajay Luharuka:** It will be around 20%, 22%.
- Manoj:** And the last question before I get in the queue. With regard to domestic market we have seen sequential improvement in terms of the growth, going forward where do you see that growth in the domestic market to be set in, is it inline in the industry or you see bit higher growth in the domestic market than the industry growth?
- Ajay Luharuka:** Manoj, the domestic market we believe that it will close around 10 to 12 % for the year.
- Manoj:** Okay, Wish you all the best.
- Ajay Luharuka:** Thank you.
- Moderator:** Thank you. The next question comes from the line of Gagan Borana from ICICI Securities. Please go ahead.
- Gagan Borana:** Yes, good evening sir. Question on the foreign exchange gain, the 14 crores that you've reported can you split this between mark-to-market and realized Forex gain?
- Ajay Luharuka:** Gagan its like this that the rupee depreciation actually started towards the end of September, so most of the realization is realized I mean the gain is on the realized accounted gain. And there would be a small component of mark-to-market which would fluctuate again depending on where the rupee moves.
- Gagan Borana:** So substantial part of the 14 crores is actually realized.
- Ajay Luharuka:** Yes.

- Gagan Borana:** Right. And this similar run rate I mean given that you haven't changed your Forex strategy. Similar run rate the one would expect, right?
- Ajay Luharuka:** Depending again on the currency movements. Yes, because we would have an equal amount of contract outstanding and we will have an impact on the debtors outstanding that's how the movements even out.
- Gagan Borana:** Right. And my second question was on -- so far as the inhaler pipeline is concerned, over the next two years internally what is Cipla's thought process, what are the products that investor should look at if there are some names that you can share with us.
- Radhakrishnan:** These are obvious names in terms of what the opportunities are and anybody can guess what are the opportunities, it's also a combination that is some of this standalone drugs and then going forward with the other combination, so these are something which an easy to guess for anybody.
- Gagan Borana:** This is for Europe for the next two years.
- Radhakrishnan:** That's right.
- Gagan Borana:** All right. Thank you so much sir.
- Moderator:** Thank you. The next question comes from the line of Abhay Shanbhag from Deutsche Equities. Please go ahead.
- Abhay Shanbhag:** Just a couple of clarifications you have indicated earlier in product mix that malaria is 10% to 12% of -- 9% of your revenue, is it total revenues or is it exports?
- Ajay Luharuka:** Exports.
- Abhay Shanbhag:** And again ARV is 15% to 20% of exports.
- Ajay Luharuka:** Right.
- Abhay Shanbhag:** Inhaler is 20% of the entire business right?
- Ajay** True
- Radhakrishnan:** Because inhaler Abhay, even domestic sale it is same, so it would be a 20% overall I guess.
- Abhay Shanbhag:** Okay. The other one thing was on rupee, rupee had depreciated significantly, and as you indicated you have not got the benefit either in material cost or much in revenues. So, do we see it's happening going forward, so we could see slightly better growth rates going forward?

- Ajay Luharuka:** Yes Abhay, that also depends on how the rupee sustains because we still have another month and half to go for the third quarter.
- Abhay Shanbhag:** Okay. But it's really been sharp depreciation, so if that 10% revenue – 11% revenue growth in the second quarter has not been without any much support from rupee, we could see a good growth going forward, given the fact that 60% revenues are exports?
- Ajay Luharuka:** Yes, one should get the benefit; it also depends on other factors.
- Abhay Shanbhag:** Okay. But the other one was on margins. Last quarter we had a lot of ARVs and that resulted in margins going a bit down. So, going forward would ARVs remain something similar 15%, 20% of revenues or would the focus be back on margins now?
- Ajay Luharuka:** Abhay see it's like we had stated earlier also, the focus is to ensure that, even in ARVs we have enough margins; I mean the business which you don't have enough margins for us to take it forward. Obviously we are not saying that ARVs won't be there, but low margin ARVs are something one would like to avoid. So, going forward ARVs are tender based, so there would be fluctuations again in ARV business.
- Abhay Shanbhag:** Okay, fine. So, you would maintain sort of 10%, 12% revenue growth and margins similar to what you have done now?
- Ajay Luharuka:** True.
- Abhay Shanbhag:** Okay, fine thank you.
- Moderator:** Thank you. The next question comes from the line of Aditya Khemka from Nomura. Please go ahead.
- Aditya Khemka:** Yes, hi, thanks for taking my question. Just a couple of questions from side. Sir, could you give us the growth rate for your domestic generic business and formulation, the branded generic business?
- Ajay Luharuka:** I am sorry, I don't have the figures right now, can I get back to you separately?
- Aditya Khemka:** Sure, no problem. The other question I had was what is the...
- Ajay Luharuka:** Sorry, I just got it; it's about 15% as a growth rate in generics.
- Aditya Khemka:** 15% on the pure generic business?
- Ajay Luharuka:** Yes, Yes.

- Aditya Khemka:** And what the rest is the branded business growth, okay. Sir, could you give me the number for the branded generic business growth?
- Ajay Luharuka:** I mean if you keep aside 15% of generic, remaining would have branded.
- Aditya Khemka:** And sir, certainty would come for the Indore SEZ, so what is your current utilization level, capacity utilization?
- Ajay Luharuka:** The capacity utilization is I mean we are yet to reach optimum capacity like we mentioned earlier. And this year it is in way the first year for Indore, so we are ramping up capacities and it will take a year or two to reach optimum capacity. So, right now the actual utilization levels would be lower. This would certainly increase as we go long.
- Aditya Khemka:** Okay. And the guidance you are giving in terms of how much time it would take to reach optimum capacity utilization is one year.
- Ajay Luharuka:** No, we say 2 to 3 years for optimum capacities.
- Aditya Khemka:** 2 to 3 years. Okay. Sir, thank you and all the best.
- Moderator:** Thank you. The next question comes from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** Good evening and congratulation for good set of numbers. My question relates to ARV, how many products you have and what is the future you foresee for this business?
- Radhakrishnan:** In ARV we are both in the first line as well as second line, particularly, in the market which are sort of financed by either the NGOs like Clinton Foundation, IMF, etc. Now basically these are tender based businesses and given Cipla's ability to optimize cost and Cipla's traditions Cipla need at really reasonable price. So I think there is a fair amount of business that Cipla is at the moment taking and going forward, one doesn't know how it is going to plan out because it depends on the financing policies of these institutions. And but the demand is there definitely so I think the business is also there for future.
- Ranjit Kapadia:** And sir, can you elaborate how is Triomune doing?
- Radhakrishnan:** Triomune is doing well in the market that we are supplying.
- Ranjit Kapadia:** And sir, can you give some detail of Anticancer how much is the portfolio consists Anticancer product?
- Radhakrishnan:** Anticancer is about 5% to 6% of the total business.

- Ranjit Kapadia:** And any specific product in this category, and are you seeing the growth in this category?
- Radhakrishnan:** Yes, basically injectibles if you ask, because we've got a good injectible plant. And going forward we have the capacities to do well here, depending on the innovative approvals that is we get in the regulated markets.
- Ranjit Kapadia:** Now any products are there in this category, injectibles?
- Radhakrishnan:** There are now 4 or 5 good products there.
- Ranjit Kapadia:** 4 to 5 products, okay sir. Thank you very much and all the best.
- Radhakrishnan:** Thanks.
- Moderator:** Thank you. The next question comes from the line of Prashant Jain from HDFC Mutual Fund. Please go ahead.
- Prashant Jain:** Yes good evening. You mentioned – I mean if you look last two years your man power cost as a percentage of sales have gone up from about 6%, 7% to about 10% 11%. So what do you attribute this to and what would be the outlook over the next two years?
- Radhakrishnan:** Prashant, basically one is that in the last two, three years field force have expanded substantially and we got a couple of major factories going, Indore for example. We had Sikkim two years ago. So these are being the reasons why we've got a big headcount. But going forward, given that we have done the all the factories, major expansion in the factory level and also in the field we are optimized. I think we may not add so much people to the headcount therefore we could -- should now so optimize our -- you know manpower and get better productivity.
- Prashant Jain:** Can one expect the employee cost as percentage of sales to move down overtime on histotrical trend?
- Radhakrishnan:** They won't move down but it won't increase as it is now and some stage it will stabilize.
- Prashant Jain:** Okay. And the second question was, did you mention figure of ₹1.5 million in Seroflo in USSR and Russia in one quarter?
- Radhakrishnan:** I think its \$1.5 million.
- Prashant Jain:** \$1.5 million. What would be the size of – okay, now I think and just one last question is, you mentioned that you realizations have improved, one of the reasons for the raw materials dropping as percentage of sales is improved realizations.

- Radhakrishnan:** Right.
- Prashant Jain:** So, can you elaborate a little bit on that, I mean, what is leading to improvement in realization, you mentioned it is not currency?
- Radhakrishnan:** Yes, basically we are looking at our cost and realization very consciously in terms of market that we are in and trying to get better rates and then better with possible because we have long-term contract and, you know, we are suppliers, for example in South Africa we put a large business there. Similarly, we've got private businesses in other parts, wherever these contracts are there we are looking at better price realization and negotiations as one of the strategies to get a better top-line.
- Prashant Jain:** And what can one expect on this trend over- I mean assuming these contracts will be renegotiate or renewed overtime, so what can one expect there?
- Radhakrishnan:** I think it is conscious referred to on two fronts; one is to ensure that we get appropriate increase in realization for cost inflation, that's number 1. Number 2, also to look at what cost efficiency you can get in terms of our own factories and material consumption cost. So, this tended to get scope given that we are large organization, with 50 factories, there is a lot of scope we have to rationalize and one is very cognizant of this and trying to get this, you know, very, very get those on hand and get the best out of these factors so that we can get a better margin.
- Prashant Jain:** Okay, thank you.
- Radhakrishnan:** Thanks Prashant.
- Moderator:** Thank you. Participants who have a question may press * and 1 now. The next question comes from the line of Pawan Kumar from Capital Markets. Please go ahead.
- Pawan Kumar:** Hi, good afternoon, Sir. My question pertains to the debt on the books, it substantially reduced from 430 to 221 crores and if I look at interest, there was -- for the quarter there is just some increase to 0.28 crore to 2.38 crores, how should I look at this? And my second question is on, what will be the impact on the genuine pricing policy on other company?
- Radhakrishnan:** The interest cost is very marginally increased and the replacement we made lately, there is an increase in the cost.
- Pawan Kumar:** Okay.
- Radhakrishnan:** As far as the impact of the pricing policy, basically we are still awaiting MRPs what they have taken for calculating the impact. But, I would imagine that it will roughly be about 2% to 3%

of our domestic top-line as is a very rough indicator subject to validation and based on the acting of the proposed notification.

Pawan Kumar: On positive side or negative side?

Radhakrishnan: Obviously negative, it is the control we are talking about.

Pawan Kumar: Okay. Thanks, Sir.

Moderator: Thank you. The next question comes from the line of Anupam Tiwari from Principal Mutual Fund. Please go ahead.

Anupam Tiwari: Good evening, everybody. This is Anupam here from Principal Mutual Funds. Sir, just once again on this gross margin thing, if I look at your history this is one of the highest gross margin in last two, three years, that you have gain. Should we assume that there is some structural change in your product mix which would be helping you to retain these kind of gross margin or it's some part of it is of quarterly abrasion that can get back to say little lower label, any of these, this is quite a very high gross margin that you have got in this quarter?

Radhakrishnan: Yes, I think it's mix of both, I don't think, you know, Yes it is a product mix and a quarterly basis away we believe business is definitely one of the factors, in terms of – for example, ARV, contribution is far lower than probably last quarter and this could change next quarter. So, Yes, that's one good – one factor. But, overall, as I said, it's also result of some improved realizations and cost efficiency that we have got. So, we could attribute it with both factors.

Anupam Tiwari: So, should we assume that there maybe one or two percentage points you can lose over a period of time, you can retain all of this?

Radhakrishnan: It could as a result, certainly as a result.

Anupam Tiwari: What could be the level, if you can give a broad ballpark figure that one should assume that okay this is the level which you can sustain?

Radhakrishnan: This year is 24%, I would put a plus or minus 2% anytime, it could be, you know, would be the average that I would look at.

Anupam Tiwari: Okay. Thank you, Sir. Thanks a lot.

Moderator: Thank you. The next question comes from the line of Bino Pathiparampil from IIFL. Please go ahead.

- Bino Pathiparampil:** Hi thanks. Again in replying to an earlier question, you mentioned that four of your inhaler products have got approval in Europe and the rest you are in the process of filing, is that true or do you have some which are filed and waiting approval?
- Ajay Luharuka:** Yes, four are approved and in fact there are about six products which are to be submitted in the current year or next year.
- Bino Pathiparampil:** Okay. So, there is nothing which is filed and....
- Radhakrishnan:** No, there are a couple of products which have filed also.
- Bino Pathiparampil:** Okay.
- Radhakrishnan:** Yes.
- Bino Pathiparampil:** Okay. And second, if I remember in the last call or the one before that, the technical consulting fees guidance you had roughly said, it would be roughly the same as last year for the full year FY12, do you still think so because first two quarters have been a bit weak?
- Ajay Luharuka:** No, we had given a guidance support of 40 crores to 50 crores for the year.
- Bino Pathiparampil:** Okay, so it's going to be 40 to 50 crores.
- Ajay Luharuka:** For the first half we have got about 17 crores, yet to see how it happens in the second half.
- Bino Pathiparampil:** Okay. And so, just for the bookkeeping why has the depreciation come down over the prior quarter, that is 1Q?
- Ajay Luharuka:** I can get back to you on that separately?
- Bino Pathiparampil:** Okay, sure. Sure, that's good. Thank you.
- Ajay Luharuka:** Yes, thanks.
- Moderator:** Thank you. The next question comes from the line of Krishna Prasad from JM Financial. Please go ahead.
- Jesal Shah:** Yes, hi, this is Jasel. Just a quick follow up from my side. One the margin thing is there any – see we have two, three things going on here. One is, as we go forward, you know one is obviously the impact of DPCO in whichever shape and form that comes. Secondly, it's the impact of the DEPB changes over there. And thirdly, as you explained that there are some pricing flexibilities and the cost flexibilities that you have. Given all the different variables that

are operating here, is there any margin target that you have, that you would want to work towards in the next two, three years?

Radhakrishnan: You know, margins of course – we want to, you know, given that there are substantial regular respiratory opportunities coming, I think the realisations there will be different to the current kind of product mix, so our target should be to definitely improve realizations also really as we go along and – and indore stabilizes and then optimize that again we have tax advantage there. So, I think overall our target would be to really, you know, get the cost efficiencies going and get a better productivity of our facility. So, our target would be somewhere in a close to 25%, 24%, 25% at least as going forward.

Jesal Shah: So, you are referring to the net profit margin?

Radhakrishnan: The operating margin.

Jesal Shah: Sorry, which margin you said?

Radhakrishnan: Operating.

Jesal Shah: So, you had already had – you said 24% right?

Radhakrishnan: This year as I told our average would be 22 to 23, we look at a 2%, incremental minimum in the next one, two years.

Jesal Shah: Right, right. Are there any specific markets that you think, you know, where you have more pricing flexibility than some others?

Radhakrishnan: But, it's more than the market, more – the kind of products that we can offer and I think some of the niche products that are in the pipeline can give us this flexibility both in the regulated markets and also other areas. So, that's where I think we can score.

Jesal Shah: Okay, thank you so much, get back to you soon.

Moderator: Thank you. The next question comes from the line of Rajesh Pherwani from HDFC Mutual Fund. Please go ahead.

Rajesh Pherwani: Yes, thank you. Just wanted to understand the CapEx plans for next year, what would be your CapEx for FY13?

Ajay Luharuka: Rajesh, the CapEx for next year will be again in the region of 500 crores to 600 crores, this includes routine CapEx and some of the projects which are ongoing on the API front.

Rajesh Pherwani: Another question is, this Serflo last year, you had also indicated that you maybe able to get an approval in the next one year, how we will be placed on that at this point, it's actually in Europe?

Radhakrishnan: This would be one of the product you know, which we will be looking forward over the next year for approval.

Rajesh Pherwani: So, you are talking of the MDI right?

Radhakrishnan: Yes, MDI.

Rajesh Pherwani: And where are we now in the whole process in terms of filings in...

Radhakrishnan: See, that is very sensitive which I can't disclose over up in open phone, but I think it's one of the products which we are targeting.

Rajesh Pherwani: And how it plays on Dymista now, when do we launch that product?

Radhakrishnan: Dymista

Rajesh Pherwani: Yes.

Radhakrishnan: Again, these are sensitive product launch information which I can't give you Rajesh on a open phone.

Rajesh Pherwani: So that will be the next one year or so?

Radhakrishnan: Yes, hopefully, yes.

Rajesh Pherwani: Okay, thank you so much.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Hi, good evening everyone. And to Mr. Mani specifically congratulations and best wishes.

V.S. Mani: Thank you.

Sameer Baisiwala: And just – actually most of my questions were answered. But, just one quick clarification, I think just now Rajesh also asked for Seroflo combination product for Europe, have you done the filing or you have not done the filing?

- Radhakrishnan:** I can't give you specific information on specific product, but this is one of the products which we are looking forward to in the next one year.
- Sameer Baisiwala:** Okay. And typically what's the approval timelines for the European authorities?
- Radhakrishnan:** Again and this is about – it could range from, anywhere as the timeline is after you get an approval in clinical it could be anywhere between six months to one year.
- Sameer Baisiwala:** Okay. Thank you so much.
- Radhakrishnan:** Thank you.
- Moderator:** Thank you. Due to time constraints we'll take one last question. The last question comes from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Yes, thanks. Sir, just looking for some numbers on the CapEx, you said 600 crores for FY13 as well as similar number for FY12. I remember your API capacities in Bangalore and in Kurkumbh would require CapEx of 400 crores, what's your maintenance CapEx included for each year?
- Ajay Luharuka:** Annually it is about 200 to 300 crores.
- Anubhav Agarwal:** 200, 300 crores. So, other than Bangalore and the Kurkumbh you are spending on some of the API plant as well?
- Ajay Luharuka:** Yes, there is one at Patalganga as well and R&D project at Patalganga.
- Anubhav Agarwal:** Okay. So out of this, 1,200 crores over the span of two years how much going in the R&D, just a very broad idea.
- Ajay Luharuka:** Actually, it will be roughly about 100 to 150 crores.
- Anubhav Agarwal:** Over the span of two years.
- Ajay Luharuka:** Yes.
- Anubhav Agarwal:** Okay. And the 300 crore you said maintenance CapEx is that one year or two years?
- Ajay Luharuka:** Two years.
- Anubhav Agarwal:** Two years.
- Ajay Luharuka:** Right.

Anubhav Agarwal: So, roughly approximately we are spending almost like 700 crores over the API plants over two years?

Ajay Luharuka: And R&D put together, API and R&D put together it will be around 700 crores.

Anubhav Agarwal: And sir, are we spending on the formulation plants further?

Ajay Luharuka: No, there will be only routine expansions, there won't be any major project coming up for formulations.

Anubhav Agarwal: Okay. Thank you.

Moderator: Thank you. That was the last question. On behalf of Kotak Securities that concludes this conference call, thank you for joining us and you may now disconnect.