"Cipla Limited Q2 Financial Year 2016 Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Cipla Q2 FY 15-16 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Chirag Talati from Kotak Securities. Thank you and over to you sir.

Chirag Talati: Good Evening, Everyone. This is Chirag here from Kotak Institutional Equities. I thank the Cipla management for giving us the opportunity to host this call. From Cipla we have with us today Mr. Sudhanshu Priyadarshi – Global Chief Operating Officer; Mr. Umang Vohra – Global Chief Financial and Strategy Officer; and Mr. Anant Atal – Head, Investor and Media Relations, Head Partnership Business for Emerging Markets.

I will now hand over the call to the Cipla management team for opening remarks. Over to you sir.

Anant Atal: Thanks, Chirag. You have already introduced Sudhanshu and myself. We are also joined by Umang Vohra, our Global Chief Financial and Strategy Officer. At the end of the call, if you have any additional clarifications, please do get in touch with the Investor Relations Team as you always do. I will now hand over the call to Umang.

Umang Vohra: Thank you, Anant. Good Evening to all of you and welcome to our second quarter FY 2015-16 earnings call. I hope you have received the 'Quarterly Performance Presentation' that we have posted on our website. I will walk you through some of the key financial highlights of our performance this quarter.

Our income from operations stands at Rs.3,452 crores registering a year-on-year growth of 24.8%. Domestic sales for Q2 increased 0.9% to Rs.1,262 crores, within which our Rx business performed above market and our Generics business remained under strain. Sudhanshu shall explain this further in his section. Our outside India sales continue to do well and this quarter we have registered a year-on-year growth of 52.3% closing at Rs.2,100 crores. Exports of Formulations have increased by 51.3% to Rs.1,874 crores during Q2 from Rs.1,239 crore from the same quarter last year. API exports have also grown by 61% year on year to Rs.226 crores. For Half One of 2015-16, our revenues stand at Rs.7,305 crores, a growth of 33.1% over last year. We are continuing to maintain the strong momentum from Q4 of the previous year and have now had three successive quarters where the company has grown in excess of 20%. Due to our strong performance in the first half of the year, we expect top line growth for this full financial year to be 20% to 22% over the previous year. Given our strong performance in half one, we expect growth in half two to be lower than that seen in half one.

Gross margins are stable between the relative periods of comparison year-over-year. This is excluding the one offs and these are similar to the numbers that have been reported. Employee cost for this quarter is Rs.586 crores, an increase of Rs.112 crores year on year. This increase

in absolute terms is largely attributable to normal increments, consolidation impact of acquisitions, new front ends and increased manpower hiring. Compared to Q1, employee cost has decreased due to a reduction in hiring cost. Other expenses for this quarter which include our R&D expenses, regulatory, quality, manufacturing, sales promotion etc have increased by Rs.141 crores over last year. Compared to Q1, other expenses have decreased to due to phasing of expenses. We continue to invest in Research and Development and our R&D project expenses have increased almost over 40% year-on-year.

Our EBITDA for this quarter stands at Rs.789 crores. Overall EBITDA has increased 41.4% year-on-year. Excluding one-offs, our year-on-year EBITDA growth is relatively strong. EBITDA as a percentage of income from operations has increased to 22.9% this quarter compared to 20.2% last year. For the first half of this year, our EBITDA margins are at 25% as compared to 20.1% last year. We are on track with our guidance of closing the financial year with a margin improvement of 100 to 150 basis points over the 2014-15 margin. Our half two margins will be lower than the half one on account of the one-off business impact.

The tax expenses for this quarter are Rs.181 crores and they have increased by Rs. 80 crores year-on-year. The higher tax expenses are due to increased profit and higher effective tax rate on account of increased tax rates this year and profit elimination during consolidation. The profit after tax is Rs.431 crores, and is up 44.4% versus last year. The PAT percentage is at 12.5%, a growth of 1.7% compared to last year. Our H1 PAT has grown by 82.4% and now stands at Rs.1,082 crores.

Our capital expenditure for H1 2015-16 is approximately 5.5% of sales. Net debt to equity is at 0.08. Outstanding forward contracts as a hedge for receivables as of 30th September, 2015 are $64 million and hedged at around 65.70 to the dollar. We also have hedges on the ZAR and we have hedged 831 million ZAR at around 5.12. We have working capital loans of about 200 million which act as natural hedges towards our receivables.

As disclosed earlier, we have entered into a Definitive Agreement to sell our stake in Biomab Holding in Hong Kong. Going forward our Biological business will be consolidated under Cipla Biotech. Cipla Biotech will focus on research, development, manufacturing and marketing of Biosimilars in the field of Cancer, Auto-immune, Respiratory and Diabetes.

With this I now request Sudhanshu to take us through the Key Business Highlights.

Sudhanshu Priyadarshi: Thank you, Umang. Greetings to Everybody and I extend a warm welcome to all of you on this earnings call. As you have heard, our Q2 income from operations registered 24.8% year-on-year growth and H1 income from operations has increased 33% year-on-year. All the business units have shown a strong growth excluding the one-offs.

Let me start with India first. Our India Rx business is in line with the market growth rate of mid-teens. In the recent past, we have done multiple in-licensing agreements to augment portfolio in niche high value areas like Dermatology which will start to show positive impact

in balance of this year. Growth in our Generics business has declined by 20% and this is due to product rationalization and the seasonal impact due to a higher dependence on the acute portfolio. We are confident of returning back to our earlier level of 15% to 16% growth in our Rx business by the end of the year.

South Africa has shown a high uplift in growth trajectory starting from Q4 last year. Our private market growth is in line with the market. The Tender business has grown even more strongly. The positive momentum of the Teva in-licensing deal continues. Further, we have entered into some more in-licensing agreements.

Apart from this we have taken forward our existing relationship with the Serum Institute of India and have entered into an exclusive agreement with them to provide vaccines in South Africa. SII will develop and manufacture Measles, DT, TT, MMR, Hep-B and BCG Vaccines and Cipla Medpro will market it in the tender and private market in South Africa. The first sales from this partnership have also been recorded. Our factory in Durban has reached nearly full capacity utilization running at a higher level of operating effectiveness.

In International market, ROW, we have witnessed strong performance across both our partners and front-end market. Our new front ends have shown high growth driven by our deep in-market activities and a strong focus on Respiratory. Our Cipla Global Access business is facing a slower than expected take off. We are closely monitoring the situation in Yemen and have taken the necessary steps to mitigate the impact on our people, customers and partners. In Algeria, we have established a joint venture company with our existing partner there. The JV company will manufacture and market Respiratory products facilitating Cipla's front end presence in Algeria.

In our North America business, we have seen a very strong performance on our B2B sales with our key partners. Our US Go-Live build out continues and we now have 10 products launched. We have entered into a Definitive Agreement to acquire a 100% stake in two US-based companies, InvaGen Pharmaceuticals Limited Inc. and Exalen Pharmaceuticals Inc. We are in the process of closing the transaction and our priority will be to ensure a seamless integration of operations. This deal will provide us 40 approved ANDAs and 30 pipeline products that we plan to leverage across markets once the integration is completed.

Regarding Esomeprazole, while we cannot disclose the financial details, but as mentioned during the last analyst call, the impact of revenue in this quarter is significantly lower than what it was in Q1. We expect a further decline going forward. For Pulmicort we continue to manufacture this product for Sandoz and they have launched all the three strengths in the market.

Let me come back to Europe. We are seeing improved top line growth across B2B markets and the market in which we have established our front end. Our in-licensing arrangement with SII for Pediatric Vaccine is showing momentum in European market. Our Respiratory product volumes continues to increase across key markets. Our API B2B business has also seen high

demand from our customers driving a good growth versus last year. In Consumer Healthcare, pilot for our Anti-tobacco Chewing Gum Nicotex has been successful and we have gone ahead with the full OTC launches in select states in India. We look to invest further in our pipeline and innovative technologies.

On the Portfolio front, we have over 200 Formulations development project underway at the moment. Our year-to-date formulation filings stand at 4 for North America, 19 for Europe and 792 for international markets. As Umang mentioned, we continue to ramp up our R&D expenses and have accelerated our investments in Consumer Healthcare and Biologics. Overall, the outlook for full year 2015-16 is strong and we expect to have a growth rate of 20 plus percent for the year.

Going forward we will continue to focus on following areas:

- Deliver strong base financial performance
- Close the US deal and ensure a seamless integration
- Focus on Respiratory and Cipla Global Access growth strategy
- Continue to optimize cost direct and indirect expense
- Securing development and filing timelines for our top projects
- Continue to reduce business complexity and sustain improvement in operational backbone
- Build our organization health.

To summarize, we have built a solid foundation for the future while maintaining the business momentum and our efforts will allow us to fulfill our mission for the patients we serve.

I would like to thank you very much for your interest in Cipla.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Saion Mukuherjee from Nomura. Please go ahead.

Sayan Mukuherjee: Just one clarification - your guidance of 20-22% does not include the acquisition right?

Umang Vohra: That is correct.

Saion Mukuherjee: Can you give any update on the respiratory approvals in UK and also for your filings in the US?

Anant Atal: On the UK approval Saion, there is no change from what we had mentioned last time. We have a file which is submitted and we are awaiting approval. We are hopeful of having an approval over the next 12 months not just in the UK but in a few other European markets as well. And on the US, I am assuming you are specifically asking about Advair DPI product. There again it is the same. As per the guidance we have given earlier which is 2019 or beyond.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: Could you share your thought process regarding the US acquisition? And any updates regarding the regulatory status of facilities you have acquired plus when do we start consolidating that?

Umang Vohra: We will not comment on any questions related to the regulatory status or the legal ramifications of the transaction because these are subjudice right now. We can comment about the overall strategy of our acquisition and the strategy is to build and accelerate critical mass in the US, and the strategy is also to have manufacturing footprint in the US. Therefore this target was a part of that strategy and we believe that the target also has a pipeline which we look at favorably.

Anmol Ganjoo: Second is that you talked about the rationalization of product portfolio. We have Pulmicort which would gather stream. So from that standpoint, the H2 margin guidance would seem a bit conservative. Would you like to help us understand that why we are not being slightly more aggressive in upping the margin guidance for the full year given the favorable headwinds on the cost structure?

Sudhanshu Priyadarshi: As we have mentioned we are still part of the transformation. We have completed 1 year of our transformation and we said in our last call that we have given guidance at 100 to 150 basis points higher than last year for the full year. As we get more profit, we are going to reinvest money in R&D and Biologics programs which we have said during the last call. We have said that during the balance of year, our growth will slow down because the one-off will not be as high, but if we see further momentum in our sales to continue, we will up our guidance or we will come back with a new revised guidance in Q3 call. For now, we are maintaining 100 to 150 basis points of margin uplift from last year.

Anmol Ganjoo: Sequentially the employee cost have gone down. I understand the part of it is linked to the variable component in domestic sales performance but structurally how do you want us to think about this particular line item? How is it likely to shape up for the rest of the year and for FY17?

Umang Vohra: We do not give guidance on specific items but if you are looking for a trend to extrapolate, I would suggest you take the MAT of the last 3 or 4 quarters. That could be a good representation for the year.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Can you comment on the sequential decline in the export sales? Is it because of the decline in Generic Nexium or it is a mix of it? How do we look at this sequentially and YoY and the ex-Nexium export sales?

Sudhanshu Priyadarshi: Most of the decline is driven by the Nexium one-off. We had said earlier that we had got significantly higher number in Q1 and the number has gone down considerably in Q2. So our core business is still growing. Most of it is attributable to that one-off. And as we said, we expect the numbers from Nexium to be much lower in Q3 and Q4 too.

Nimish Mehta: From Q3 onwards, will we be seeing more commoditized Nexium impact – is that a fair understanding?

Umang Vohra: We cannot comment about whether that understanding is true or not. Nexium has had competition in the market. So I do not know whether it is commoditized as yet or not, but what we will report will reflect additional competition in the market.

Nimish Mehta: Have we booked any milestone income from our complex technology of Rifaximin to Salix and Valiant in this quarter? Are we likely to book it in the next quarter or so?

Umang Vohra: We do not provide guidance for the future, but there is nothing untoward which is being booked this quarter.

Nimish Mehta: The question actually is that with the launch of Rifaximin with Irrritable Biosyndrome and Diarrhea, are we likely to see any positive impact of that?

Umang Vohra: As I said, we do not comment on future but we have not booked any milestone in technology income in this quarter.

Nimish Mehta: On the Generic Advair in UK, you said nothing has changed. Have we had any indication with the regulator there or has that also not changed, it is the same as usual?

Umang Vohra: We do not comment on any specific discussions we have with the regulator. I think from a status point of view, we have a file in and we are awaiting an approval for the product. We cannot comment on the specific timeline by when we think the approval will come.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: I just wanted to understand better on your comment in the presentation where you speak about slower offtake in Global Access business. Would that be a prime reason for a QoQ ex-Nexium partial decline in exports??

Sudhanshu Priyadarshi: Not exactly. As you know, it is a tender business which contributes to Cipla ethos. We are seeing a lower offtake there. We are hoping that the offtake will increase, but that is not the sole driver of our balance of year lower growth in export.

Prakash Agarwal: Trying to understand InvaGen and Exalen better in terms of balance sheet and modeling it around. So what portion of it should be the tangibles and intangibles for the year closing that is March ’16 and how much should we account for the 550 million?

Umang Vohra: So it will be a mix of goodwill and intangibles. The exact specifics I think we will only be able to inform the market at the end of March 31st . I do not think we can guide on what the exact split is, but it will have to be a mix of the two.

Prakash Agarwal: But any ratio?

Umang Vohra: I am not sure if there are too many people who give rough ratio for this. So I am sorry we cannot comment on that.

Prakash Agarwal: On the India business if I look the AIOCD data, it is showing 8.5% kind of growth spread across volume, price and new product. So, would that be a fair number that you would have grown and the prime reason you clearly said is the fall in the Generics piece. So if you could help us understand the growth in the Rx business would be high single digit?

Sudhanshu Priyadarshi: I would say mid-teen growth is what we are growing in Rx business. So most of the decline or all of the decline is driven by our Generics business.

Prakash Agarwal: Where is the math wrong? What share of our business is Generics today?

Anant Atal: What we have shared earlier is it is about 20% of our overall India business.

Prakash Agarwal: So this 20% Gx share is as on Fiscal '15 number which has gone down by 20% and your 80% has grown by 15%?

Umang Vohra: Yes.

Prakash Agarwal: So sir, the math does not go well right?

Umang Vohra: But where is translation of AIOCD with company numbers? I am not sure there is a one-to-one correlation there. So if you are saying that every other company's AIOCD numbers tallies with the reported numbers, I would be surprised.

Prakash Agarwal: But as per you, the Domestic Rx business has grown 15%, that is what I am trying to understand?

Umang Vohra: We have given you an indicative number. It could be higher than 15 or slightly lower than 15 but it is around mid-teens.

Moderator: Thank you. The next question is from the line of Manoj Garg from Bank of America-Merrill Lynch. Please go ahead.

Manoj Garg: Taking the previous question further, Sudhanshu, you have indicated that you expect in the overall growth for domestic market in this year to be around 15-16%. Given the fact that first half has been relatively mute, do we expect +25% kind of growth in the domestic market in the second half?

Sudhanshu Priyadarshi: No, that number is for Prescription Rx business. That is not the number for Generics as we said that in the Generics business we are having headwinds there. We have discontinued some product last year and that is what you are seeing in the negative growth of our 6-months. So the number of 15-16% growth rate is for our Rx business.

Manoj Garg: In the last concall and even in the 'Investor Presentation' you have indicated that your South Africa Rx business is outgrowing the local market growth while I think this quarter you have indicated that it is in line with the local market growth. So is it whether our growth has come down or the Rx market growth has moved up?

Umang Vohra: Manoj, our private market growth rate is more or less stable both in Q1 and Q2. I think that is pretty much what we can say at this point of time.

Manoj Garg: I think the understanding which we have got last time is that the profit of Esomeprazole will be booked with a quarter lag. So hopefully in this quarter the profit which we have booked is the revenue which we have done in Q1FY16. Is that understanding correct?

Umang Vohra: Yes.

Manoj Garg: In Q4, we just had revenue of 1.5-months, while in Q1 FY16 we had a revenue of full 3 months. So even Q1 revenue was lower than the Q4 revenue of FY15 for Nexium?

Umang Vohra: Yes.

Manoj Garg: Even the Q2 revenue for this year is lower than the Q1 revenue for Nexium?

Umang Vohra: Significantly lower.

Moderator: Thank you. The next question is from the line of Chunky Shah from Edelweiss. Please go ahead.

Chunky Shah: One question on the InvaGen acquisition. Do you get the R&D team from them as well? When you report EBITDA margin of 25% or more, can you just roughly indicate what is R&D expense this company was doing when it was doing sales of $225 million?

Umang Vohra: We are not going to give that guidance. I think more on that will be available after we consummate the transaction. From what we have announced, everything that was part of InvaGen is essentially part of this acquisition.

Chunky Shah: You do get the R&D team as well from them?

Umang Vohra: Yes, everything of InvaGen is part of the acquisition.

Chunky Shah: Earlier you mention that $550 million, you book as goodwill and tangible asset. There will be no product intangible here, everything will be goodwill and therefore it will be tested for impairment and you will not amortize it, right?

Umang Vohra: Yes, that is the Indian GAAP accounting treatment.

Chunky Shah: From the Indore plant, roughly what percentage of our filings were approximately are filed for the US market?

Umang Vohra: We can provide you this data separately.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: I have three questions; first is that you made a comment that ex of one-offs EBITDA growth is strong and I can see that India business has slowed down in terms of growth. Would base business EBITDA margins have expanded in the first half of this year?

Umang Vohra: We are not providing that level of detail, but as I said earlier, our base business EBITDA margins is relatively strong to that of the previous period. I did not say strong.

Chirag Dagli: On the staff cost, how should we break it up into wage inflation and incremental additions that you need to do and how have you budgeted the staff cost increase?

Umang Vohra: Overall, a 10% to 12% increment in most of our territories holds with respect to wage inflation The rest would be either increments, people or build out of our frontend operations.

Chirag Dagli: So is there more to be done in terms of adding people and build-out?

Umang Vohra: May be a few here and there, but overall I think our build out is largely done.

Chirag Dagli: So effectively staff cost growth should now be much lower than sales growth?

Umang Vohra: Yes, I think you could take that as a benchmark.

Chirag Dagli: In terms of the InvaGen pipeline, you have obviously evaluated the pipeline and we do not know what is there in the pipeline. But we can see that 40 products are delivering almost $250 million of sales, which is a very good ratio of $6-6.5 million per product on an average basis. Would the pipeline be good enough to better this run rate or is there some sort of decline that we should expect in this run rate?

Umang Vohra: I cannot comment on specifics but I think what you could take as an example is that the base business, as its true of all US businesses, will show some erosion year-on-year. That will be compensated and offset through pipeline that will come in.

Chirag Dagli: But on the quality of pipeline, can comment a bit?

Umang Vohra: We cannot comment right now, but it is an integral part of what we have evaluated in InvaGen.

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

Sameer Baisiwala: Just taking up on the US acquisition of InvaGen and Exelan, what would be your cost of borrowing on this and what could be the deal payback period. By when do you think you will be able to gross total net profits more than $550 million?

Umang Vohra: Sameer, as of now, we are not giving that guidance. You know that the US business depends on which product makes it, and how quickly. So I think what we have seen of their pipeline seems to suggest that there could be accretion to growth, in terms of their InvaGen-based revenues. So I do not think we can comment on the payback as yet. In terms of funding, I think we are looking at somewhere around overall less than 2% roughly in dollar terms.

Sameer Baisiwala: And therefore, you expect it to be EPS-accretive right from the day one?

Umang Vohra: Yes.

Sameer Baisiwala: On Pulmicort, is your revenue recognition more or less same as Nexium which is with a one quarter delay?

Umang Vohra: Yes, from a consistency perspective it would be that way.

Sameer Baisiwala: Which means that you have not recorded anything in the September quarter since you launched it only in this quarter?

Umang Vohra: No, we have not.

Sameer Baisiwala: There was no inventory building and sales prelaunch the way you did for Nexium?

Umang Vohra: I cannot comment on that.

Sameer Baisiwala: On Pulmicort, is the profit share any too different from the one that you had for Nexium?

Sudhanshu Priyadarshi: We cannot disclose the financial impact because it is due to contractual obligation. We haven't it disclosed it for Esomeprazole too.

Sameer Baisiwala: I am not looking for a specific number, I am just asking in general, how would you qualify your profit share on this product?

Umang Vohra: Cannot comment Sameer. I do not know whether there is a relative scale with which we can comment.

Sameer Baisiwala: If I look at your Fiscal 16 sales guidance of 22% top line growth, it implies that in the second half, your YoY growth would be 10%. I am just wondering that given that all elements of your base business are doing pretty good growth, plus you have Nexium to whatever extent that you have, and you have Pulmicort, does it not look too conservative?

Umang Vohra: May be we can provide more color at the end of Q3. I think this is more reiterating that we had given guidance at the beginning of the year and we are on track to hit or exceed it.

Sameer Baisiwala: One suggestion - given that now you have got certain important geography such as US and South Africa etc., it would be a lot better if you can improve your disclosures and break out some of the segments by country.

Umang Vohra: Thank you. We will take note of it, Sameer.

Moderator: Thank you. The next question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Just again on InvaGen. I know you are not giving color on the pipeline. But when you said in the initial remark it gives you of course the footprint and facility, does it also come with any specific R&D capability which Cipla may lack of? If you look at the products that they have in the market, to me it seems like those are very me-too products. So what kind of differentiation you get from InvaGen?

Umang Vohra: The products in market are a result of what InvaGen may have been selling for several years. So therefore while they may have become commoditized now, timing of when they were launched is also critical. But, yes, to answer and maybe we were not clear enough, there is R&D capability which is part of InvaGen which is being acquired.

Girish Bakhru: What is that capability? Can you elaborate on that?

Umang Vohra: Not this time Girish. I think we will give more color at the end of Q3.

Girish Bakhru: Other question was on the UK approval of Seretide. Of course Mylan approval came for the fact that Mylan product is not similar to Glaxo but based on your understanding, is there any color from the regulatory authority as to what is taking this time. If you are asking for substitutability, is that the reason why the product is actually seeing a lot of review time?

Anant Atal: Honestly, we cannot give you any comment beyond what we have already said on this one.

Girish Bakhru: But just from a filing perspective, would you have filed for all the indications which Seretide sells for in the market?

Anant Atal: We cannot comment on that right now Girish.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from India Infoline. Please go ahead.

Abhishek Sharma: What is the status of the 483 observation letter which was given to InvaGen in May and which is now posted on the FDA website?

Umang Vohra: At this point, we are not going to comment on it because the acquisition is not yet closed.

Abhishek Sharma: I read in your presentation that you are investing in a new ARV facility which is expected to come online. Given the fact that we have heard that it is a low margin business, I just wanted to understand what is the thought process behind that?

Anant Atal: It is a similar message as what we have conveyed before. The fact is that it is a low gross margin business, but there is no marketing and sales expense related to this business. So I can run this with a very small fixed cost base. As I build scale in this business, I get the gross margin benefit and the delta between my gross margin and EBITDA is reasonably less. So we have a business case, we have a business plan, and we follow all those good practices. Based on that we believe that there is adequate return in this business. And also, Cipla Global Access is a business which is very close to Cipla's values and ethos and that is a business which we are committed to building.

Abhishek Sharma: Would the EBITDA margins for the ARV line compare with your company's average EBITDA margin?

Anant Atal: For last year, it was slightly below our overall company average.

Abhishek Sharma: In terms of your export sales, just wanted to know as to how much of it is USD denominated and how much of it is in other currencies? I understand South Africa is entirely ZAR, but if you could just give us some broad breakup?

Umang Vohra: I think about $330 to $340-odd-million is US dollar-denominated for the first half. That is, about 60% and may be a little bit more than that is US dollar-denominated.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: Given the fact that you are saying that second half margins will be lower than the first half because you are also increasing your R&D spend. Just wanted to get a sense of what has been the R&D spend for the first half? You have just given that you have increased R&D spend by 40% in second quarter, but if I were to look at the first half, what is that number?

Anant Atal: We do not disclose the R&D expense at a quarterly level, but directionally it has increased over our last year levels. As we have disclosed, we are increasing R&D spend closer to the 7% to 8% over a medium term. So it is higher than last year but it is lower than the 7% to 8% kind of levels.

Umang Vohra: Neha, just keep in mind that though the R&D expenses have gone up 40%, revenues are also up by a huge amount because of the one-offs that we have had, and our base business growth

has been strong. So as a result of that the percentages may not change much but the absolute amounts are pretty significant.

Neha Manpuria: Is the first half spend as high as 40% increase year-on-year or would the first half be probably somewhere in between let us say what we did last year and this year and therefore this 40% number could sustain over the second half or probably increase?

Umang Vohra: The first half spend is 40%, it is a little bit of phasing and it is therefore higher in the first half. Overall, the commitment is to grow R&D a lot higher than what it has been in the previous year.

Neha Manpuria: On the R&D, we have also mentioned that obviously we are increasing spend on Consumer Healthcare and Biologics. On the Biologics side, what is the thought process there? I think you have mentioned once that initially your focus is on emerging markets. So if you could give some color there?

Umang Vohra: Yes, at the current moment the focus is the emerging markets. As we said earlier, we just announced a transaction that we are divesting our stake, but we are also reconfiguring our overall Biotech plan within Cip-Bio. But the focus is largely on emerging markets.

Anant Atal: On that Neha, what we have said is that it is about 6-months down the line where we will communicate a broader Bio strategy. At this stage, it is still work in progress.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Would we be aware of the markets that Mylan has in Seretide in UK?

Anant Atal: We can't comment on that.

Chirag Dagli: Would we know how the product is doing?

Umang Vohra: No comment on that. I think it is best to ask Mylan that.

Chirag Dagli: Over the next 12-18 months, a range of how many products in the US should we expect to launch from the Cipla's label? Not just your label but whether through partners or front end whichever there are?

Umang Vohra: I think we are hoping to launch maybe up to 10 products on a safe side. That would be a safe estimate to make.

Chirag Dagli: These are through partners and as well as your own front end products, all inclusive?

Umang Vohra: This number is largely from our own front end. The partners will be a separate number.

Chirag Dagli: How many will be through partners?

Umang Vohra: That is a difficult one to comment because that is up to the partner on when they actually want to launch and commercialize that product.

Chirag Dagli: When you say 10 products, are these new products or are these existing improved products which are not yet in the market and hence launching?

Umang Vohra: Could be a combination of both.

Moderator: Thank you. Ladies and Gentlemen, that was our last question. I would now like to hand the floor to the management for closing comments. Over to you, sir.

Anant Atal: Thank you everyone. And as always if there are any specific follow-up questions, please do reach out to me and the Investor Relations team. Have a good Diwali break next week.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of Kotak Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.