

Unichem Q2 & H1 FY15 Earnings Conference Call October 20, 2014

Operator: Ladies and gentlemen, good day and welcome to Unichem Laboratories Limited's Q2 & H1 FY15 Earnings Conference Call hosted by Systematix Shares. As a reminder, all participants' 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 entering *, then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dinesh Bajaj from Systematix Shares. Thank you, and over to you, Mr. Bajaj.

Dinesh Bajaj: On behalf of Systematix, I'd like to welcome everyone to the conference call. From Unichem, we have Mr. B. S. Dhingra, Chief Executive of the domestic pharma business. Mr. Rakesh Parikh, Vice President Finance, and CFO, and Mr. Monish Shah, Manager Investor Relation. I would request Mr. Rakesh Parikh and Mr. Dhingra to first take us back to Q2, post which we could proceed with the question-and-answer session.

Rakesh Parikh: Good afternoon, and thank you, Mr. Dinesh Bajaj. We welcome all the participants and greetings on the occasion of Diwali and the festive seasons. We had the board meeting on Saturday, and the investor release was shared with everyone, I trust you had the opportunity to go through it. I'll quickly take you through some of the highlights of the total Company standalone results which have been published, as well as on the international business, and later I will hand it over to Mr. Dhingra for his overview of the India business.

For the second quarter standalone, the total revenue of the company was Rs. 278.2 crores, taking the half-yearly figure to Rs. 569.1 crores. PAT stood at Rs. 22.3 crores, taking it to Rs. 52.5 crores for half year. And beyond the standalone numbers, I will touch upon the international side, during this quarter, Unichem Laboratories has filed one DMF, taking the total to 36. The ANDA filings stand at 33 out of which, 17 have been approved, including two tentative approvals. And as of the quarter end, we had 12 products launched. The US subsidiary has continued to show a robust growth clocking more than ~5.8 million USD in the second quarter, taking the total for the half year to 10.53 million USD, which is over 100% growth compared to the same period of last year. And the subsidiary has reported a profit of more than \$300,000, taking the total to \$0.38 million for the second half. I would now like to request Mr. Dhingra to take you through the India business performance and also share some of the highlights and post that we can move to the question-and-answer session. Over to you Mr. Dhingra



Bhagwat S Dhingra:

Yeah, good afternoon, friends. First and foremost, season's greetings from Unichem. As Mr. Parikh has briefed you the overall numbers, coming to the domestic business, the reported business for the quarter is Rs.166.6 crores as against last year Rs. 173.9 crores. On H1 basis, the reported business is Rs. 346.61 crores as against Rs. 349.54 crores, showing a dip of around 3 crores. As you know that first half for Unichem had a high base because of NLEM where our key products like Losar and Trika came into NLEM last year, this has impacted the overall revenue by Rs.10.5 crores in the first half for the Company. And therefore, when we look at our domestic business performance, it has shown a de-growth in H1 compared to last year. Instead of reading the numbers which are already in front of you, it will be better if we can take your questions. Thank you.

Operator:

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone who wishes to ask a question may enter * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may enter * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. Ladies and gentlemen, if you have a question, please enter * and 1 on your touchtone telephone. We have the first question from the line of Hitesh Mahida from Antique Stockbroking. Please go ahead.

Hitesh Mahida:

Wanted to understand around Rs. 13 crore impact has come from supply chain and distribution model in UP, which is a huge impact. But it's been more than three years now since we are doing this distribution changes domestically. So wanted to know how much more is remaining and what is now the conversion from distribution to C&F as far as domestic sales are concerned. And secondly, even if we sort of add back Rs. 13 crores, then also on a y-o-y basis, we are getting only 3% growth, which is pretty low considering that our last year base is very low, particular for second quarter FY14 when the inventory days domestically had gone down to as low as 15 days. Can you explain?

Bhagwat S Dhingra:

Yeah, it's a very good question, Hitesh. First and foremost I would like to clarify that Rs. 13 crore plough-back what you mentioned for UP alone is incorrect. Approximately plough-back is around Rs. 10 crores, and we have done four conversions. We had three distributors in UP; one at Lucknow, another at Allahabad, third in Ghaziabad. So those three distributors of UP have been converted to C&F with effect from 1st October 2014. Similarly we had one distributor based in Pune, looking after the rest of Maharashtra, the same has been converted to C&F. We have done these four distributor conversion, and the plough-back is approximately Rs. 10 crores. When we spoke last time we had mentioned that as of now about 55% business is coming through C&F and 45% business is coming from distributors. So with this conversion, now we have 75% business coming from C&F and 25% business coming from distributors. We have a plan that in quarter three and quarter four this year, we will definitely take the another four major distributor to be converted in this financial year itself. This would help us bring parity in our distribution at par with industry. That means we will have all our distributors converted to C&F and we'll start operating from C&F instead of distributors. That is answer to your question number one.



The question number two, compared to the quarter two base of last year, our performance is not good. It is prima facie, because Unichem in IPM was one of the major sufferers. Because you know that NLEM impact started coming for other companies from quarter three onwards, whereas for us our major products like Losar and Trika new prices were announced in June last year. So the Plough-back from the market as well as the new inventory started flushing into market in the month of July and August onward. So for us, the base was not depleted to that extent. That is number one. And number two, we have sold only Losar and Trika at a new price, which constitute almost 48% to the overall cardio-diabeto business. Therefore, the impact on the cardio-diabeto business from NLEM is almost Rs. 8.5 crores. And the overall impact for the Company is around Rs. 10.5 crores. Out of that, the NLEM impact for cardio-diabeto business, because of Losar and Trika itself is ~Rs. 8.5 crore. So that has depressed the numbers for the quarter two.

Hitesh Mahida:

What would be your guidance going ahead, of third and fourth quarter? I mean, are we going to see more conversions from distributors to C&F, and what sort of impact do we see going ahead?

Bhagwat S Dhingra:

There are two things. Let me explain to other investors also. One is we talked of PTS sale. The PTS sale is one which is being built from distributor or C&F to the retailer, price to stockist, means which we are billing to our stockist channel. When I look at my stockist channel, say, which is much higher than reported sale, reported sale is depressed because of the plough-back, because of conversion. That is one part. Second, when we talk of secondary sales, if you look at AWACS numbers, our AWACS secondary sale growth is 12% vis-à-vis market growth of 10.9%. So our secondary growth is much better than IPM. Even internally, if I take my secondary growth which is matching to AWACS numbers. So whatsoever initiative we have taken in terms of realignment of our acute business, C&F business and cardio-diabeto business has started paying dividends. Therefore, our secondary growth, is matching to AWACS growth. Since past 2 quarters we have taken various steps like manpower expansion where we have put a new team into cardio-diabeto, we have put one new team into neuropsychiatry. And all this is completed now. We believe that we are going to start performing better than the market.

Hitesh Mahida:

Okay, sir. Thank you, sir, and all the best.

Operator:

The next question is from the line of Vikas Sharda from NTAsset. Please go ahead.

Vikas Sharda:

I have a couple of questions. One is on this conversion to C&F. How does that affect your working capital and revenues? If you could elaborate in much more detail. And is it this plough-back one off... does it mean that basically the next year growth will be on a lower base, so this one off will be like positive contributing towards your growth next year?

Bhagwat S Dhingra :

When you work in a distributor model, you sell stocks to distributor, and then distributor does billing to the stockist. For which the distributor holds certain amount of inventory. For example, Pune on an average does a sale of Rs. 4 crores for us. But Pune for doing Rs. 4



crores is keeps the inventory of Rs. 5.5 to Rs. 6 crores. So when we are converting Pune Distributor to C&F, we have to plough back the total inventory and then fill it with the new inventory at C&F. At all C&F locations, the inventory is of the Company, not of distributor. So when it comes to billing, reported sale is after the plough-back. When it comes to PTS sale, it is the sale which is the actual sale done to a stockist at a price which has been decided by Government of India. So the PTS is a price on which every Company sells it to stockist. When I talk of PTS, it is showing a positive traction, whether it's in primary, or in secondary sales. But when it comes to reported sales, because of plough-back and NLEM, it has resulted in a depressed number. I hope that clears your point.

Vikash Sharda:

So two things on this. This conversion increases your inventory but should decrease your debtors. But if you look at the balance sheet this first half, your debtors have also gone up along with the inventory.

Rakesh Parikh:

No, there are two things. If you are seeing the balance sheet, that is for the company as a whole. What we were explaining earlier was about our 60% business which comes from domestic formulations. Now, in terms of debtors, because of mix, if you see our percentage proportion of India business sales to the total company has come down by about 4% or so compared to the earlier period/last quarter. And the credit periods in international business are much higher. That is the reason the debtors have gone up.

As far as the inventory is concerned, for our international business, we have to align our business to suit our requirements especially where our own captive API is involved. Also with the expansion and the acquisition that we have done hence the adequate capacity on the API front will be available. And till then werun campaigns because of which the inventory for the last couple of quarters is running at a much higher level. If you see the total inventory, jump, is more or less on similar lines of recent past and of which you can say roughly about 50% is on account of API and the international business related WIP, raw materials etc. And the balance 50% is accounted by this India formulation.

Vikash Sharda:

Okay. So when do you expect your reported revenues for the domestic business to come in line with the secondary sales?

Bhagwat S Dhingra :

As I said earlier, almost Rs.15 to 16 crore of current sales are still in the hands of distributors. If we take action in quarter three and quarter four means another Rs.20 to 22 crore plough-back is pending. And based on our secondary growth which we are anticipating is going to cross what we have done in first half. If we do that, it will be more comfortable for us to plough back this quantum and our distribution system will be at par with the industry. Then all our distributors will be converted to C&F. Once that happens our secondary growth and PTS growth, will continue to have a positive traction which is showing currently. With this approach we are confident to show better results in H2 as compared to H1.

Vikash Sharda:

Okay. And what is the net working capital impact of this conversion on your books?



- Rakesh Parikh:** There will be a benefit, because the distributor model was an concept which we have been running for more than four, five decades with certain service level agreements. As Mr. Dhingra also explained earlier, that if you are selling, let's say, one crore of goods, why should you keep inventory of 2 crores, which in C&F model we will never keep it because anywhere in India today you can transfer the materials in about 15 days' time. This along with reduction in debtors will lead to an improvement in working capital cycle.
- Vikash Sharda:** There were no ANDAs filed this quarter. So is there any lag in the filing?
- Rakesh Parikh:** There is timing mismatch that DMF is filed. So maybe it will get covered up in the next quarter, and maybe more than one or two ANDAs filed then.
- Vikash Sharda:** Coming to the formulation exports to the other markets in the US, what is the outlook there and in other emerging markets and in Europe?
- Rakesh Parikh:** I briefly touched upon the US business, which is expected to continue to grow at the current pace and we hope to get more approvals whereby the growth momentum can be maintained. The emerging market is also showing a robust growth. And even in the second quarter it has continued to grow at more than 20%. So the entire first half we have seen growth of 20% or more coming from the emerging market business. And we are quite hopeful and positive that this will continue for few more quarters.
- Vikash Sharda:** Alright. Thank you.
- Operator:** The next question is from the line of Nimish Mehta from Research Delta Advisor. Please go ahead.
- Nimish Mehta:** Coming back to the question that was last asked. I just wanted to know what is the outlook on the European business. I mean, when do we expect them to become profitable? And second also, some color on the research and development activities that you've been carrying on? I understand from the annual report that you're focusing a lot on the bio-similars. So if you can throw some light, it will be helpful.
- Rakesh Parikh:** In fact, Europe has still been challenging and again this quarter it has been challenging as far as subsidiary is concerned. We have two businesses in Europe. One is on the contractual side where we supply to the EU, which is basically a contractual business. And that business has been flattish for almost now about two, three years, because there has been no new party or no new product from the existing party which has come through. The only thing we can say is that there are a couple of parties where discussions are at a reasonably advanced stage. And we are hopeful that before the end of H2, there is a chance that some new contractual business may start from Europe also. We are also in touch with some North American parties also.
- So Europe has been an issue, and this particular quarter, for our subsidiary specifically was challenging on account of certain pricing pressures in the UK. As far as R&D is concerned,

for short to medium term, the focus is there on the ANDA filings. And as we said earlier, we hope to file one or two every quarter, going forward. And out of the 10 or 15 molecules which are at a very advanced stage, these are out of the older lot, But where we are cost competitive, these are already gone off patent and there is a good chance that once we get an approval, we are able to launch it. Currently we have about 12 products in the market. We should be able to get a reasonable market share out of these existing good old products.

Whereas bio-similar concern, we are on the verge of completing a biosciences pilot plant next to our R&D center at Goa, where we have got some leads. But this would be slightly from a medium to a long-term perspective. So on the R&D level, we have been successful on a few products which we now have to take to a pilot plant stage before we can go to the commercial stage. So it will take some time, and we are definitely looking at least a couple of years or so before anything can be filed and then we can start launching it.

Nimish Mehta: Okay. So in terms of your US business, how many launches do you expect every year? Second, I understand you have filed a few Para IV's. So some color on that. And finally on the bio-similars, I mean, is it fair to assume that the initial target would be the domestic market, and then you would be looking for the regulated market?

Rakesh Parikh: On the US side, we have launched about 12 products. Out of the 17 approvals we have, two are tentative approvals. And there are a couple of products where we don't see that we are cost-competitive. We would not like to launch it unless we are very sure of our competitive position; and in one product we are expecting to launch. With this, the kind of growth which we have seen in the past we would like to see that at least in the short term it will be managed. In the meantime, there are a few approvals which have crossed more than 30 months now as we are talking. And we are hopeful of getting those approvals. If we get those approvals, then those also will be launched.

Nimish Mehta: But in terms of competitive intensity, anything that you can comment on either Para IV kind of filings or you would expect any niche launches with let's say not more than three, four generic competition?

Rakesh Parikh: Right now as I mentioned our strategy is more on the cost-competitive side and where we feel that these are good products. There is limited competition in terms of lesser interest, because these are the older molecules/products, and we being backward integrated with our own APIs in the areas of cardio vascular, CNS, pain management, diuretic etc we would be more competitive. There are a couple of ANDAs which are I wouldn't say complex or something but delivery systems like extended release or delayed release products. The Para IV what we are referring to is something which is still at R&D stage and no ANDA has been filed now. After we file about 40-50 molecules for which the work started about six, seven years back, and the R&D after shifting to Goa has stabilized have now they have started work on the next lot of about 10 molecules or more. And these new molecules are the ones where there is a better market size, and some of them have not gone off patent, maybe there



could be a couple of Para IVs and few slightly complicated or difficult to manufacture or limited competition products.

In terms of bioscience what I would like to mention is that we are looking at it from the global standpoint. We would look upon international market the major ones, and preferably the regulated ones and not the domestic markets.

Nimish Mehta: Okay. And one last very specific question if I may squeeze in is about the divalproex sodium product that we already have an approval on, any expectations that we can have on the extended release version of that? Is that something that you can get an approval on very soon?

Rakesh Parikh: We have already launched that product

Nimish Mehta: That is delayed release, right? I'm talking about the extended release. I guess those are two different things.

Rakesh Parikh: We are into delayed release one only, and that is the approval which we have. It's been already launched and it is doing well enough. We have labeled our product based on our R&D and that is delayed release. I don't think there is a major difference between that. Maybe I can check with our R&D team and get back. And in this also there has been some price increase but we have not taken the kind of price hikes what people have reported.

Nimish Mehta: Okay. But there is no new product on Divalproex sodium that we are targeting anymore?

Rakesh Parikh: No. We are not targeting any new filing of ANDA on this.

Nimish Mehta: Thanks very much, this helpful.

Operator: The next question is from the line of Saravanan Vishwanathan from Unify Capital. Please go ahead.

Saravanan Vishwanathan: Wanted to understand, are any of the facilities due for US FDA inspection, is it causing delay in the approval front also?

Rakesh Parikh: We have four plants which are already approved by US FDA, in fact re-inspected and re-certified also, The last one being somewhere in FY 12-13. Last month our Goa plant underwent an inspection from MHRA & EMA, and it went reasonably well, and there were no major which that were cited. Nowadays there is no such thing as informing in advance and coming. They can come at any time. But as far as the approval delay is concerned I don't think there is any linkage. The last inspection was done two years back or so.

Saravanan Vishwanathan: Okay, And as regards the acquisition of API plant at Kolapur what is the incremental CapEx that is required to refurbish it and would this be subject... I mean you would ask the regulators to come and inspect this also?



Rakesh Parikh: The acquired API facility was a kind of distressed asset sale which has got little use in terms of operating it immediately except for maybe one or maybe two plants. Hence, it will require significant modification and refurbishment. We are looking at CapEx in two phases it may amount to Rs. 100 to 150 crores. Maybe in the first phase we will go up to Rs. 75 crores or so in addition to the Rs. 20 crores which we have already spent for paying off the bankers, lenders and the existing owners or so. It is an MIDC land, so the approvals are awaited. I think because of the election the final approval has not come through from the MIDC, we are expecting it soon. And once that comes, then we'll have to get some more approvals like pollution control etc. And the capital expenditure will start up in full scale.

As far as API is concerned, we use little for the domestic market, we use it for the emerging markets and well as for the various regulated markets for our own formulation. For example, if you are talking of US, we will not be able to shift it immediately here till we get the US FDA approval. What can be done is that whatever our requirement is for the other markets, those we can shift it here or we can easily get the approval for our domestic API business where such approvals are not required expect for preliminary ones which anyway we'll have it. And subsequently our Roha and Pithampur plants will have additional capacity which can be used for the regulated markets of US and Europe.

Saravanan Vishwanathan: Yeah, okay, got it. My last question, as regards niche generics what's the mid to long term strategy, would you guys like to run the company or are you looking at selling it?

Rakesh Parikh: Many people have asked this question. We believe that Europe still has got a good scope and we would not like to let it go. But looking at the current situation in Europe and our performance both put together, plus the EU litigation case which is pending, we have to have a closer look at it. Otherwise, we would like to implement the earlier plan which is becoming part of our European strategy. And that is the reason we have started a company in Ireland to make use of the Ireland tender businesses in Western Europe and EU. In line with products we are developing for the regulated market, let's say for US or so, something similar so that we can have benefit and we feel that these products are there which have been tested and we are quite competitive enough, it should be possible to do the same in other regulated markets also.

Saravanan Vishwanathan: Okay. You've not given mandate to anybody to sell it?

Rakesh Parikh: No not at all.

Saravanan Vishwanathan: Okay. fine, all the best.

Operator: Thank you. The next question is from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Wanted to know if you could please re-explain this Rs. 8 crores impact due to Losar and Trika which you have explained. I didn't get it completely. Secondly, in previous calls you



had mentioned that since Losar is one of our top brands and we've reorganized our MR team in order to push the sales for Losar and bring it back into the market, so how is the prescription level and what we have heard from the doctor, if you can just explain how the demand growth for Losar molecule asset is growing?

Bhagwat S Dhingra:

When I said Rs.8.5 crores impact because of NLEM in H1 I meant that H1 this year was with the old price. And this year in H1 we have sold Trika where the price is 28% lower, in case of Losar it is 26% lower as compared to last year. So therefore there is this impact of Rs. 8.5 crores. Second, as I told you previously we have realigned our cardiac with effect from April 2014 where we have put in dedicated team to promote Losar and Trika. This team is just six months old. Team has settled, they have started promoting the brand. When I look at the prescription data, the prescription is showing a positive traction not only from top-end doctors but also from the consulting physician and family physician. They are accepting the molecule in a better way because, as I shared last time also, that Losartan is still the largest selling ARB across the world. But in India because of Telmisartan, Olmesartan coming in and the since doctors behavior is more governed by the push by the industry, these products made inroads into Losartan market. Hence, various companies have pushed Telmisartan, Olmesartan, while Losartan was not pushed by many companies. Therefore Losartan took a backseat. But now with aggressive promotion by Unichem into the market at family physician level and as well as in consulting physician level and even with the nephrologists, diabetologists, we are getting positive prescription traction. So the strategy of realigning field force in cardio-diabeto which is just six months old has started showing a positive sign.

Saravanan Vishwanathan: Okay. That's all from my side. Thanks a lot, sir.

Operator:

Thank you. The next question is from the line of Bhavin Shah from GeeCee Investments. Please go ahead.

Bhavin Shah:

On the non-NLEM side we were seeing a 16% growth for Unichem, as against market which is showing 11%. Now the 16% would be purely volume, or there will be a price component, just in case there is?

Bhagwat S Dhingra:

This is volume growth because price component will get factored in from H2. We have planned for a price increase and the new batches with renewed prices will start flowing from October. That is one. And the second, answering to the 16% growth in non-NLEM products, it is because of the dividend coming out of the restructuring done in past for acute business as well as recently into Chronic business. And both the business are showing a positive traction. I'm sure that in H2 you will find better results in all the businesses which have already gone through the restructuring exercise.



- Bhavin Shah:** Okay. And how much would you probably classify that quantum to be, the price increase in the second half? Would it be 2-5% or something?
- Bhagwat S Dhingra:** Yeah, it should be around 2.5-3%.
- Bhavin Shah:** 2.5-3%. Alright. Thanks so much, sir.
- Bhagwat S Dhingra:** Thank you very much.
- Operator:** The next question is from the line of Saravanan Vishwanathan from Unify Capital. Please go ahead.
- Saravanan Vishwanathan:** As regards with Losar and Trika, when can we take the price increase? I mean there's an annual price increase component linked to inflation, right? When can we take that?
- Bhagwat S Dhingra:** It has already been announced by government so in month of June we have started implementing the same. And from September last month the billing of new price with 6.3% in relation with the WPI has started. As the September month when the billing of Losar 25-50 and Trika at a higher price of 6.3% increase, the impact will definitely be there in H2.
- Saravanan Vishwanathan:** Okay. So H2 the Rs 8.5 crores which happened in the H1 it may not be so much in H2, right?
- Bhagwat S Dhingra:** It will not be there in H2 rather H2 will see a benefit of price increase of 6.3% on Losar and Trika.
- Saravanan Vishwanathan:** That's clear, sir. Understood, thank you.
- Operator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.
- Dheeresh Pathak:** Why is the Unichem laboratory growth in cardiac care lower than the representative market?
- Bhagwat S Dhingra:** But in the represented market we are the major player for Losar & Trika compared to other companies like Zydus Cadila, or Sun. So that becomes a major selling point. So that is one reason. And second reason is that like operation efficiency into cardio-diabeto. As I said in answering some of the questions before, that we have done a restructuring of cardio-diabeto business from April onwards. And the results of restructuring have started showing a positive traction into the balance portfolio where the market is showing a good buoyancy.
- Dheeresh Pathak:** The question is that when we have a large market share in those two molecules, therefore, our growth is more reflective of the industry growth in those molecules. So we are a major influencer in the represented market growth rate. So then why is that the represented market is growing faster than us?



- Rakesh Parikh:** If I have understood you correctly maybe I would like to check with Mr. Dhingra, when you say a represented market in cardiac, will it also include a much broader molecule basket beyond Losar? Even if our market share is increasing in Losar but the cardiac basket also includes Telmisartan and others which are growing much faster than Losartan. When you take the rep market today it includes all the sartans put together.
- Bhagwat S Dhingra:** When you talk of represented market of Unichem, it does not only contain Losar, it contains telmisartan, olmesartan and all other products which are getting marketed by Unichem. So we are into a much larger market, not only Losar. So the impact of Losar de-growth in terms of volume and value is definitely subdued.
- Dheeresh Pathak:** Yeah, I got your explanation. I'm saying, what you can then show us in your press releases is molecule adjusted a represented market growth rate.
- Bhagwat S Dhingra:** Yeah, that can be done.
- Dheeresh Pathak:** It is not very meaningful to us. We need to look at whichever molecules you are present in, what is that represented market and molecule adjusted and what is the growth rate in that market.
- Bhagwat S Dhingra:** Mr. Pathak, that can be done. But on the other end let me also reiterate without mincing my words. There is a concern in cardio-diabeto growth vis-à-vis market growth. And therefore in last six months the structuring has taken place, we are putting operational efficiency and effectiveness in place; and H2 of this year we'll find a very positive traction coming into cardio-diabeto also.
- Dheeresh Pathak:** Okay. And just to understand, you'll present standalone numbers and then you give subsidiary numbers separately. So when you give international formulation numbers, those revenues also include the sales that you make to your international subsidiaries, right?
- Rakesh Parikh:** Yeah, but at our transfer price. There are two cases here. One is Niche Generics, the UK subsidiary and the second is US subsidiary. As far as US is concerned, it's more like a marketing arm/extension of Unichem. So 100% of the sourcing is done by them from Unichem. So it includes that but at a lower price. If they have sold \$10.5 million, maybe our sale will be \$6-7 million or so based on the transfer pricing applicable. But as far as niche generic is concerned what is happening is that the sourcing from Unichem is roughly about 35% to 40%, the balance 60% sourced from their plant in Ireland or other Companies., But yes, what we sell to our affiliate subsidiaries is included in the international formulation.
- Dheeresh Pathak:** Can you just give a broad breakup of last year's international formulation revenue, just a broad breakup?
- Rakesh Parikh:** For the conso?



- Dheeresh Pathak:** No, just the standalone numbers. If I have my numbers right, I think about Rs.255 crores was shown as FY14 revenue in the standalone business accounts from international formulations. If you could just broadly break up the mix of that revenue stream? Obviously some would be sales to niche, some would be sales to your US business, some would be your contract manufacturing.
- Rakesh Parikh:** Can I share these numbers offline?
- Dheeresh Pathak:** Sure.
- Dheeresh Pathak:** Okay. And who's the frontend partner for the US business?
- Rakesh Parikh:** In US our model we are going on our own and then for the distribution and the marketing, there is a tie-up with the large distributors, wholesalers of the retail chains, which is ANDA-wise. For different ANDAs we have different tabs. So whether it is AmerisourceBergen, or Mckesson, Cardinal, Walgreen, Wal-Mart, some or the other ANDAs we have tie-ups and they are selling it on our behalf. They are sourcing it from us.
- Dheeresh Pathak:** Want to understand how difficult it is with just 10 products in the portfolio to go and talk to these large players?
- Rakesh Parikh:** This is the model which we have adopted now for almost about four, five years plus, ever since we started, and we felt that this was making sense. And we have built up a relation with them. They are aware of our pipeline, what work we do and a reasonable comfort has come in. Secondly what happens is that, they were also looking for a reliable, good quality, second or a third supplier which is where we fit in. If there are any issues or a problems crops up then such an opportunity has enable us to increase the percentage or the proportion of buying which they do from us vis-à-vis the others.
- Dheeresh Pathak:** Right. So if I understand correctly, you said old molecules which have been generic for a while and you are being cost-competitive and that is what the selection has been so far. So in those molecules you would have taken share away from Indian companies, right? That would be fair to understand?
- Rakesh Parikh:** Possible, yes.
- Dheeresh Pathak:** Can you talk about a few molecules which have done well for you in market share and which company has taken share away from?
- Rakesh Parikh:** There are certain cardiac products and there are pain management products where we are already among the top three as far as sales is going based on this IMS data.
- Dheeresh Pathak:** Okay. Can you name a few and give an example of who you've taken share from?
- Rakesh Parikh:** That I'll have to just check whether I can share it.



- Dinesh Pathak:** Okay. All right, thank you.
- Operator:** Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.
- Nimish Mehta:** Can you elaborate upon the operational efficiency measures that you are taking in the domestic market, what are those exactly?
- Bhagwat S Dhingra:** As I briefed you in past, in the Acute business we have started restructuring almost four quarters back. And if you look at the restructuring along with operational efficiency has started paying good dividends. Similar thing we started in C&F verticals where we have expanded our C&F vertical, so today we are getting a positive double-digit growth into our C&F business in primary and secondary both. Similarly after expansion of our cardio-diabeto business, a lot operational efficiency and effectiveness have come in, we have worked on middle layer people, we have found that those who were not up to the mark keeping in mind the current requirement of the market, we have taken a decision to bring the new competent people in middle layer and top layer so that we can make our business more robust and growing.
- Nimish Mehta:** And any thrust on new product launches in the domestic market to increase growth or it is largely around improving the sales and efficiency of the bigger products that you have?
- Bhagwat S Dhingra:** As I keep saying that without launching products in domestic business we will not be able to make domestic business grow better than the IPM, because as you know that Unichem has around 48% sale coming from the mature or products in declining phase. And this mature or decline product market is growing only at 1-2%. So the balance 40% business comes from those products which are into growth market. If I have to make Unichem one of the better performing companies within the IPM, there's no way out except to bring new products. We have pipeline of a lot of new products across therapy space and in all the divisions where we are aiming to introduce new products on quarter-on-quarter basis. And we have also created plan for next three years as to how these new products will help us to create a growth.
- As you know there are some growing therapies like dermatology, gynecology, orthopedics, as well as in hypertension. So these are the four to five areas where we have planned new product launches. I have now complete business development and strategy team working with me and they are trying to outsource and also look at our home grown marketing setup and in-licensing of some good molecules is also one area where we are working. If a company has ~48% of mature products and without any new product introduction it will be difficult to create a growth and that's what we are trying to address.
- Nimish Mehta:** Just one information if I may have is what is the current sales force today, and as a plan of this overall improvement, what do you think, what would be the expansion in the next two-three years?



- Bhagwat S Dhingra:** As of now we have complete manpower, of 2,750 people. On an average we're having a vacancy of 150 people. So the effective manpower working on the field is around 2,600 medical representatives. We don't have any new plan for expansion of manpower because we have already put in 11 verticals which are dealing with all the important therapeutic areas. The challenge is, to grow in volume within the existing portfolio; and second is to bring new product into each division so that we can make each division more profitable.
- Nimish Mehta:** Okay. Out of these 11 divisions that we have right now, which one are the ones which are kind of matured division? How many are matured divisions roughly speaking?
- Bhagwat S Dhingra:** There is one division in Cardio-diabeto which is dealing with few mature products, and there is another division in acute care which is dealing with mature products. So out of 11, 9 divisions are having growing products and the other 2 divisions are having mature products.
- Nimish Mehta:** Okay. Fair enough. Thank you very much for this.
- Operator:** Thank you. The next question is from the line of Siddhant Khandekar from ICICI Direct. Please go ahead.
- Siddhant Khandekar:** Just to kind of talking about your margin scenario and I know there were issues about ploughin back etc. But even you remove those issues, what kind of margin that you'll be talking about say for maybe 2-3 years down the line, maybe one year down the line? I'm talking about EBITDA margins.
- Rakesh Parikh:** We have been more in the investment mode as far as the international business is concerned and on the domestic side having issues like plough back etc. Once these things are behind us, lets say couple of years down the line and at that time with expenditure not increasing significantly and the revenues growing, a few percentage points better with all these things put together we can achieve Industry level margins
- Siddhant Khandekar:** Okay. That's it from my side.
- Operator:** Thank you. The next question is from the line of Vikas Sharda from MT Asset. Please go ahead.
- Vikas Sharda:** You mentioned that plough back was around Rs.10 crores in the first half and NLEM impact was around Rs.10.5 crores. So based of domestic formulation sales of Rs. 350 crores, this adds upto Rs. 20 crores, but still it doesn't show the kind of a growth which secondary sales should have. Is there anything more to add to that?
- Bhagwat S Dhingra:** Secondary sale is on PTR. When you see the AWACS data or IMS ORG data, for any company it is priced to retailer. That captures a sale of price to retailer which is by all means is 10% higher and the secondary sales is captured at trade offer given to the market. Like from company to company trade offers may vary. For us it is around 2.8%. So around 10%



is the price difference and 2.8% is the trade difference; so the secondary and primary value difference you will always find to the tune of ~12.8%.

- Vikas Sharda:** My question is more in terms of the growth that even if you add this 20 crores to this first half sales your growth comes to be around 6%.
- Bhagwat S Dhingra:** The secondary growth is in liquidation from stockist to retailer. And the primary sale is from C&F to stockist. So when it comes to C&F to stockist, because of the inventory correction what we have done; and if you look at last year's H2 we have pushed a lot of stocks of Losar and Trika because pipelines were lying idle and there were no stocks, we ploughed those stocks, then we re-stamped it. So therefore H1 has shown little depressed volume sales and this has resulted into a lesser value growth.
- Vikas Sharda:** Alright. Sir, any other updates on the niche generics penalty from EU Commission?
- Rakesh Parikh:** As we had said earlier we had preferred an appeal and the matter is in court. So I don't think we can say anything, but yes, we have gone in for the appeal as we had earlier pointed out.
- Vikas Sharda:** All right. Thank you.
- Operator:** Thank you. The next question is from the line of Purvi Shah from Dalal and Broacha. Please go ahead.
- Purvi Shah:** My questions have been answered, Happy Diwali!
- Bhagwat S Dhingra:** Thank you.
- Operator:** Thank you. As we have no further questions I would like to hand the floor back to Mr. Dinesh Bajaj for closing comments. Please go ahead.
- Dinesh Bajaj:** On behalf of Systematix, I'd like to thank the management of Unichem for their valuable time and also like to thank all the participants for being on the call. Thank you everyone.
- Rakesh Parikh:** Thank you, Dinesh.
- Bhagwat S Dhingra:** Thank you, Dinesh. Happy Diwali to you also.
- Dinesh Bajaj:** Happy Diwali.
- Operator:** Thank you, Gentlemen. Ladies and gentlemen, on behalf of Systematix Shares, that concludes this conference call. Thank you for joining us and you may now disconnect.