



“Cipla Limited Q3 FY 2015 Earnings Conference
Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Cipla Limited Q3 FY 2015 Earnings Conference Call hosted by Kotak Securities. The duration of the call will be 45 minutes. As a reminder all participant lines will be in the listen-only mode. 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 “*” and then “0” on your touchtone telephone. 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!

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 Mr. Rajesh Garg – Global CFO, Anant Atal – Head of Investor Relations and Business Transformation along with their colleagues. I would now hand over the call to Mr. Rajesh Garg for opening remarks. Over to you Sir.

Rajesh Garg: Thank you very much Chirag. Good evening to all of you and welcome to our third quarter earnings call. I have my colleague Anant with me. I hope you have received the brief investor summary that we have posted on our website. It was also sent to most of you. I will walk you through some of the key highlights of our performance this quarter and if you have the presentation with you, you will be able to link my commentary with the slides.

Our income from operations at INR 2765 Crores grew at 6.5% versus last year. On a year-to-date basis revenue has grown by 8%. Our India business continues to perform very well and grew by 14.2%. If we use IMS data, it shows us growing at 18% on a year-to-date basis while most estimates suggest Indian Pharma grew at 10% to 11% in the same period. This is also visible in our market share which now stands at 5.2%. We continue to drive the overall India business transformation as well as our legacy of continuous medical education and outreach programs.

Our export performance was however muted- primarily due to supply constraints, the transition from the B2B partner model to the direct to market model, as well as ongoing product rationalizations and in a few areas lower uptake in tenders. We also hit a very important milestone which we had been talking about earlier Cipla under its own label is now live in the US.

EBITDA grew by 18.5% compared to Q3 last year and our EBITDA margin increased to 20%. In the same quarter last year it was 18%, so 200 basis points improvement has been driven primarily by product mix improvements as well as good cost management across manufacturing and procurement. We continue to have good operating cash flow, which is helped by our focus on managing the cash conversion cycle as well as a very vigorous capex management.

The profit after tax at INR 328 crores is up 15.3% versus last year. This also includes the adverse impact of the change in depreciation treatment, if you exclude that, then on a like-to-like basis PAT growth would be up above 20%.

In terms of business and strategy, we continue to derisk our business by building front ends. We have now instituted a model change in over 15 countries. We also won a big tender in the ARV area worth \$189 million from the South African Government to supply several key products such as - TEE, Nevirapine, Efavirenz, Lamivudine. The tender is expected to strengthen Cipla's position as a leading partner of Government in their efforts to enhance medical access. In addition, we obtained clearance from the competition commission on the marketing collaboration between Cipla Medpro and TEVA, which is a big step change in Cipla South Africa's product portfolio. As of today it gives us 65 new molecules.

We entered into a commercial partnership with the Serum Institute of India for affordable pediatric vaccines in Europe. This partnership enables us to enter into the vaccine segment and provides a platform to contribute towards eradicating childhood diseases and also to fulfill our commitment of enabling access to affordable pediatric healthcare.

Medicines for Malaria Venture, more commonly referred to as MMV, has signed a collaboration agreement with Cipla for the development of rectal artesunate for the pre-referral treatment of severe malaria in children. This collaboration has been established under the MMV led "Improving Severe Malaria Outcomes" project funded by UNITAID. The focus will be on all the countries in Africa such as Nigeria, Ghana, Kenya, Uganda, Tanzania, Congo and some others where there are over 220 million malaria cases in Africa of which 8 million are suffering with severe malaria.

We would also like to talk about the expansion of Gilead's Hep-C generic licensing agreement with Cipla, which will now include the investigational pan-genotypic agent. The expanded agreement will now allow Cipla to manufacture and market GS-5816 and the single tablet regimen of GS-5816 sofosbuvir in addition to Sofosbuvir mono, Ledipasvir mono, and the fixed-dose combination of Ledipasvir and Sofosbuvir with each other and the combination of Sofosbuvir or Ledipasvir with other active substances under Cipla's brand name. As communicated earlier this agreement provides Cipla access to 91 developing countries and will enable rapid access to over 100 million patients in these countries.

You all know we have a 49% stake in a stem cell company Stempeutics, which has now filed with DCGI for its lead product Stempeucel, seeking approval for the indication of Critical Limb Ischemia due to Buerger disease, a major unmet need globally. In India alone, there are 10 lakh people estimated to be affected by Buerger's disease. Once approved this would potentially be the first novel biological entity invented, developed and commercialized in India.

Recently we have entered into a JV agreement in Morocco with Cooper Pharma and PHI. The agreement enables Cipla to establish a front end in Morocco. The initial focus of the JV will be respiratory and neurological products.

As widely covered by the media, TEVA recently received approval from FDA on the first generic equivalent of Nexium-esomeprazole magnesium. Cipla is the supplier of the API and formulation to TEVA. Unfortunately we cannot disclose the commercial agreement on this, but we are aware TEVA is preparing to launch this product in the near future.

You may have also just seen an announcement, we closed 60% acquisition of a company Jay Precision for 96 Crores. Jay Precision is our existing respiratory device partner. This allows us backward integration into respiratory devices giving us end-to-end capability literally from plastic molecule to a finished inhaler device.

Moving more towards operational performance, we went live in November with SAP which is now the single ERP system replacing over 39 legacy systems. We are very pleased with the remarkably smooth transition, which is generally quite uncommon in SAP. Given the scale of this move, it is still continuously being monitored to ensure minimal adverse impact on the business. One of our key priorities is to strengthen our operational linkages across zones and functions to mitigate supply related issues. I already talked about the big milestone of the U.S. go live, the first wave of products that we have launched are Meloxicam, Topiramate, Valaciclovir and Doxycycline.

Moving towards Europe, the launch of Salmeterol Fluticasone last quarter in some of the key European markets has seen good traction in Czech, Slovakia and Croatia but the uptake in Germany and Sweden has been slower. At present, most of the sales are retail and our focus is on pull activities at doctor level. We were also recently awarded the first tender for Serroflo in Germany.

On the R&D front, we have more than 250 formulation projects underway. More than 85% of our top 25 projects are on track. Our filing intensity continues with 1000 plus filing during the year for International, 33 for Europe and 10 for North America.

On the organization front, one of the key highlights has been the kick off of the top 100 leaders program in the company to really nurture them and develop them to be able to help us achieve all the goals that we set for ourselves as well as build a leadership pipeline. On quality, again this quarter we have faced several regulatory audits and I am pleased to say that we have completed all of them successfully.

Overall, I would say we continue our transformation journey and are focusing on strengthening the key building blocks. This would be the second year of our transformation.

We expect to close 2014-2015 at 9% to 10% revenue growth and an EBITDA margin close to our year-to-date figure. We have been very busy this year, whether it is business model change, strengthening our partnerships, converting many partnerships into JVs or acquisitions, strengthening our home market, which is India and South Africa. Many infrastructure investments in several major IT platforms whether it is SAP or quality systems and of course the slow and steady march into EU and US. We also continue to steadily increase and improve the efficiency of our R&D spending.

I would like to thank you for your interest in Cipla and will hand it back to Chirag.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Thanks for the opportunity. Sir first clarification on the presentation and the comments you made on scale up challenges, if you could throw some light. Is it related to capacity? What is the current capacity?

Anant Atal: We can break it up into three buckets. One, we faced some API related supply bottlenecks, which we have been trying to mitigate either through enhancing our internal capacity or developing alternate vendors. Some of that has taken little longer than it should have. The second, from a timing point of view, we are facing some capacity constraints on specific lines. That does not necessarily mean that we are losing the revenues. The impact is deferral in revenue because we have got a set of orders which we were anticipating slightly earlier so we could have managed our production. But they have come together at the same time, so it is leading to a little bit of bunching and we are trying to manage that through actions such as three shift operations and it should smoothen out over the next few quarters. The third element, as we transition from our B2B to DTM model, we are trying to develop our own capabilities with respect to forecasting and demand planning. This year has been a learning for us in terms of being able to plan effectively, forecast efficiently and actually make sure we cover 100% of the demand we require and not 50%-60%. So these three elements are the key reasons. We have a clear plan to address each of these and I do not believe that it will necessarily result in lost sales over a length of time. It is just about phasing.

Rajesh Garg: If I can add, demand has not been a problem. It has been clearly our ability to supply and now thankfully our whole migration to SAP has come at the right time. It would have been a bigger challenge if we continued with all our legacy systems and the past ways of working.

Prakash Agarwal: Sure but would it be fair to say that coming next fiscal we would be all prepared to gear up our capacity either through ourselves or through alternate vendors and we would not see growth issues especially from capacity point?

Anant Atal: If you look at it from a full year point of view, we would like to cover up any pending demand. There may be some lag in Q4 FY 15 and Q1 FY 16, post which we should see some upward traction.

Prakash Agarwal: Second question was on the generic Advair. You talked about that few countries have taken good traction while others are slower, if you could give any feelers in terms of whether the doctor accepting it? Is the marketing being difficult? What is the key reason why there is a slower uptake in bigger markets like Germany and Sweden and the expected launch in UK?

Anant Atal: As Rajesh stated that till now it has really been pull activities at the doctor level and majority of the sales being retail. The volume increase in market is also going to come through tender business. We have actually won the first tender in Germany. That is a positive first step not just in Advair but also in Mometasone nasal. There is also a timing issue you need to consider because these tenders happen once in nine months, 12 months, 18 months for different buyers, for example in Germany. There is a timing issue and once we go through a full 12-18 months cycle there should be traction.

Prakash Agarwal: If you could throw some light on the commercial partnership on the vaccine business with Serum. What is the kind of size we are talking about, are the margins in line with the company margins and just broad highlights?

Anant Atal: It is a little early days for that Prakash. We signed the collaboration agreement. It is for European countries. It clearly has an economic rationale behind it. We are still about 12-18 months away from any kind of launch in the vaccine space. We are trying very hard to accelerate and over the next few quarters we will have better visibility.

Prakash Agarwal: Thanks. I will join back the queue.

Moderator: Thank you. Our next question is from the line of Manoj Garg from DSP Merrill Lynch. Please go ahead.

Manoj Garg: Good evening to all of you and thanks for taking my question. Anant, like in the last call we have indicated that probably the second half we do see the pickup in the export formulation business which would be driven by uptake in the Malaria tender business also. So, just want to get a little sense on that and what has got delayed and do we expect some of that recovery in Q4?

- Anant Atal:** We will probably close the year with about 9% to 10% growth. So there is definitely a bit of recalibration there and we spoke about the key points earlier; namely the supply issues, some of the B2B legacy business running off and the model change to direct to market, tender uptake, and the continuing rationalization. You can do the backward calculation and estimate what Q4 will be if the target is 9% to 10%. It should be similar or a little bit higher than what you saw this quarter. From a medium term perspective, we will stick to the mid-teens growth level.
- Manoj Garg:** Okay. And just to understand whether we have started supplying Nexium to the partners or it has yet to be started?
- Anant Atal:** We have started supplying.
- Manoj Garg:** So even despite that supplying of Nexium and maybe a bit of pickup in the Q4 numbers, we are still guiding the margins which are closer to what we have achieved in nine months versus your earlier guidance of the margin will be more or less closer to the last year margin which is 21%?
- Anant Atal:** Yes. Specifically on the Nexium question, the impact you will see in next year or next quarter. By next quarter I mean Q1 FY16, because we are already in Q4. We have disclosed earlier that it is a cost and a profit share structure. Profit share will come in the next quarter and the quarter after that. Now it is up to TEVA and their commercial engine to maximize this opportunity and we will support as required.
- Manoj Garg:** Okay. And the last question from my side before I get into the queue. Any color on the other European markets in terms of incremental launch of the Serroflo?
- Anant Atal:** Beyond the five markets where we are present, we should be present in several other European markets over the next 12-18 months. We shall provide an update at the next quarterly call.
- Manoj Garg:** Wish you all the best. Thank you very much.
- Moderator:** Thank you. Our next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Thanks for taking my question. Rajesh, just one request. Now formulation export is 50% of your business, we guys just cannot dissect Cipla numbers. Can you please start providing some geographical split of sales? That will be very, very helpful. At the quarter level also, I know that you do it at year-end.

- Rajesh Garg:** Sure we will take that request and we will revert. As I said you know at the year-end we do, and we will try and look through if we are able to provide this.
- Anubhav Agarwal:** My first question here is that the clarity on generic Seretide. The data package that you have given on one application, which is to Sweden for example and the data package you submitted to UK. Is that materially different? I tell you the reason why I am asking this question is that why there is a lag between UK approval and Sweden approval? Is that you submitted that UK approval application late or there has been more queries from the UK regulator and therefore the approval is taking longer?
- Anant Atal:** It is both. So there were separate applications and it is taking longer.
- Rajesh Garg:** They are pretty much independent processes and almost have no bearing. And yes, they do have additional questions and difference like differences in their approaches, so I think that really what it is.
- Anubhav Agarwal:** Okay. Second question was on this \$189 million ARV tender. How much is incremental sales to Cipla from this vs what we were already doing under ARV tender here?
- Anant Atal:** This is a completely new tender. So when you mean incremental, you mean over and above the existing run-rate of that business?
- Anubhav Agarwal:** Yes, the quantum what we are already doing from the ARV sales in South Africa?
- Anant Atal:** This is not a South Africa tender, just to be clear. This is part of what we call as Cipla's Global Access business which is a separate business unit- which deals with some of the central purchasing bodies, for example Global Fund, Clinton Health Access Initiative, TB Alliance, WHO. This is more of the central purchasing which is happening either in US or Geneva. These entities purchase the medicines and then they facilitate distribution to different markets across Africa, Asia etc. So this is separate from the South Africa tender that we had won earlier. That is a local market event. This is a very specific tender that we won which is global and medicines will be distributed across multiple markets.
- Anubhav Agarwal:** Will this be supplied over two years and roughly let us say about \$95 million per year it should add to our sales incrementally?
- Rajesh Garg:** It is across three years.
- Anubhav Agarwal:** Across three years, okay. And just one more clarity on this partnership with TEVA in South Africa. The 65 new molecules, these are already approved by MCC or these are in the pipeline?

Rajesh Garg: No these are the approved ones. They have more that are in the pipeline, which as they happen will also come to the joint venture in those therapy areas.

Anubhav Agarwal: Sorry in which therapy areas?

Anant Atal: They are across all therapies.

Anubhav Agarwal: But what kind of step change do you see in Cipla's growth now with this access to TEVA's products now? Let us say, do you see that now the earlier Medpro can grow in mid-teens to probably a little higher in growth with these products coming?

Rajesh Garg: Obviously each of these is helping build that business. We had declared in the previous quarters that they had certain tender weaknesses but we were happy in a way because they were lower margins and we were happy that some other higher margin tenders were coming our way. So these are all things that are building the business. It gives us lot of confidence for our sales and marketing machinery there and the relationships with the key stakeholders. We still maintain one of the highest BEE ratings that is required in South Africa. It just gives a lot of confidence to us in the management team we have in place. And the last tender we won, we had the good pricing. It was the best sort of sweet spot, we had literally analytically determined that at what price should be bid versus some of the other competitors who got largest share but actually they have much lower margin.

Anant Atal: The way you should think about it is that we have an aspiration to become the number two player in South Africa, so this has accelerated that aspiration. If you think of growth rate, we should be above what we originally had in our plans when we made the acquisition.

Moderator: Mr. Agarwal, may we request you to return to the queue for a follow up question as there are several participants waiting their turn.

Anubhav Agarwal: Thank you.

Moderator: Thank you. Our next question is from the line of Abhishek Sharma from IIFL. Please go ahead.

Abhishek Sharma: Thanks for taking my question. A couple of them. If you could just give us some sense of what is the size of this tender that you have won in Germany for the inhaler? And does it designate your product as an interchangeable product against the innovator product?

Anant Atal: The answer to the second part is yes. We are not disclosing exact scale but basically with this tender win and some of the push activity we are still well below 10% market share.

Abhishek Sharma: So how much of the inhaler business, do you expect? I understand that right now it is all innovator business. But how much of this would become tender over the next one or two years in Germany?

Anant Atal: Over the next 12 to 18 months as we go through the full tender cycle, we will at least have full access to the MDI market. Just to give an illustrative number, supposing this tender was say 30% of the market, which means we would currently have access to 30% of the market. Now over the next 18 months many more tenders will happen and therefore we will be able to at least play in 100% of the market for MDIs and then take the relevant share from it.

Abhishek Sharma: But you are saying basically that this is the first tender that has come after you launched and you have won some part of it?

Anant Atal: Yes.

Abhishek Sharma: The other question was around the other operating income of INR 140 Crores, if you could just give us some color there?

Anant Atal: This will primarily include a one-off payment we received for the Salix deal.

Abhishek Sharma: Salix Rifaximin?

Rajesh Garg: Yes. Just to be clear, there are other items in it as well such as sale of services, export incentives, technology know-how fees, scrap sales and others and Salix is within this number.

Moderator: Mr. Sharma may we request you to return to the queue for a follow up Sir?

Abhishek Sharma: Just a quick one. I just wanted to know if Jay Precision is your exclusive supplier for respiratory devices?

Anant Atal: Yes they are.

Abhishek Sharma: They are exclusively tied with you as well so it is a mutual exclusivity?

Rajesh Garg: Well they are only producing for us. We source from multiple places. So they also one of our largest partners and have grown with us and they do all the innovation for us along with our R&D department. The partnership has been on for more than almost one and a half decades.

Abhishek Sharma: Thank you. I will return to the queue.

- Moderator:** Thank you. Next question is from Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Thank you very much. Sir, on this generic Seretide in Europe, in the first tender in Germany, who else was there that you were competing against and what percentage of that tender did you win?
- Anant Atal:** We are not disclosing share, but other competitor would have been the innovator and you would have also competed with other molecules or other combinations of the same which can treat the same ailment.
- Sameer Baisiwala:** Number-wise it was like under 50% or 50% some ballpark if you can?
- Anant Atal:** Because the tender was not just MDI. It was MDI and DPI. Across the entire thing it is less than 50%.
- Sameer Baisiwala:** No. Only for MDI, the relevant one?
- Anant Atal:** We are not able to disclose that.
- Sameer Baisiwala:** Okay. I mean just thinking philosophically I mean obviously the innovator cannot compete with you on the price so you would substantially be lower in pricing for all that tender if that is only the competitor. So your chance of winning in a substantial portion remains high across the tender cycle, would you say that?
- Anant Atal:** That is a fair statement.
- Sameer Baisiwala:** Okay wonderful. And when do you expect the UK approval to come through?
- Rajesh Garg:** There is no date per se. We continue to wait and watch, and the occasional Q&A or whatever, but I think it is anybody's guess.
- Anant Atal:** It is 12 to 18 months across most European markets.
- Sameer Baisiwala:** This would be amongst the earlier ones within 18 months or towards the later ones?
- Rajesh Garg:** Again anybody's guess.
- Anant Atal:** Actually it is very difficult to say. We would love to have it as soon as possible. Predicting when you get the approval and when you can launch is very difficult.

Sameer Baisiwala: Okay. No worries. Just on the supply constraints, is Nexium causing a bit of your capacity constraints out there? And what is your capacity utilization if you look at some of the newer lines that you have put up?

Rajesh Garg: See clearly Nexium is quite a complex product and I would say the term that we use is it is very arduous to make it. So it does impinge on capacity of other products. But overall it is always a good place to be in. In several lines we faced capacity constraints, as if you can think about two years of continuous growth we ate into the capacity. What we have since then done is we have actually done a complete holistic network optimization exercise which has given us very good data based scientifically calculated program for the next three to five years, but also what it did was we have gone out and then debottlenecked lines, deployed Saturday workings, deployed three shifts in sort of products and plants where it was possible so I think all that will now helping us return back where clearly some of the softness in the international was as a result of we basically ran out of ability to executive in-between and we missed some of the demand that we could have fulfilled.

Anant Atal: At an enterprise level, capacity utilization is below 70% but the fact is you have specific lines which are crunched. So for example, the Esomeprazole line which is a pellet product, there was a definite crunch so you might have had to trade off or defer other orders on that line because you are dedicating it 100% for the manufacture of this product. There are several examples of trade-off resulting in the deferment of existing orders.

Sameer Baisiwala: Okay. And one final question. I was a little surprised when you said that from the current 9% to 10% growth that you expect for this fiscal, you will go back to your original, your natural growth of mid-teens. Given all that you have lined up and a lot of those things are ready to go, I am very surprised, and Nexium would be in full flow next year, that you expect the growth to revert back to just mid-teens?

Rajesh Garg: As of now we are maintaining that.

Anant Atal: It is very difficult to predict what will happen with Nexium. We are really focused on delivering the volumes and have an organic element built in. If there are things which come over and above that is great.

Sameer Baisiwala: Thank you.

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

Anmol Ganjoo: Thanks for taking my question. First, I will strongly second what an earlier participant requested that it would really be helpful if we have some kind of handle on the export

breakup on a quarterly basis. My question emanates from the constraints we face as a consequence of that. So when you talk about the mismatch with respect to demand design, could you just help us understand as in what surprised on the upside and what surprised on the downside because there is a margin expansion which accompanies some amount of shortfall in the export revenues? So, any greater color would be extremely helpful.

Anant Atal:

If you look at it as a portfolio and you look at the export business, there are four elements, South Africa, North America, Europe and what we call international which is rest of the world. If you look at North America, the performance there has been very strong, year-to-date and what we expect for the year. If you look at South Africa, growth has been a little lower but from a marginal profitability point of view there has been a lot of positive momentum and a lot of the traction there. The two areas which have been most affected by supply and capacity related issues have been our International and Europe franchises. This is primarily for the non-respiratory part of the business. That is the way you should think about our export business and the performance of the different geographies. We will definitely look into your request for giving the geographical breakdown on a quarterly basis.

Anmol Ganjoo:

My second question is that on the other operating income, this runrate of Rs.140 Crores; how should we be looking at it? I mean in terms of an annualized runrate, what is it that we should conservatively be kind of forecasting? Because the technology know-how income has been fairly volatile and this quarter I know there is a Salix contribution, but there must be other elements also which would have surprised on the upside? So clearly from that standpoint, I mean how should we be thinking of it on an annualized basis?

Rajesh Garg:

See basically the word one-offs describes they are very difficult to predict. Lot of these are investments and decisions made long ago and now being pushed through. Then export incentives and all obviously depends on how we get them cleared, bring them in, some of this is catch up. So it is not really always a steady flow, so it is difficult for me to give you a number, but I do not think we can have this set of sustained level.

Anmol Ganjoo:

My last question before I get back into the queue. When you talk about the generic Seretide tender market in Glaxo, was that always the plan as in the first level of entry will happen via through the institutional market? And if yes, then what does it do to our margin realization profile and do you expect this to be replicated across some of the other markets like Sweden etc. where our first leg of entering these markets is going to be via the institutional market?

Anant Atal:

A large part of the market is tender market by default. For example in Germany you have sick funds which are purchasing. Now it is institutional and it is a tender but it also depends on the level of competition in the tender. So at this point of time you are only competing

with the innovator and if your price is 50% that of the innovator you have a chance to win a fair share of the tender. Even at that level you have margin opportunity.

Anmol Ganjoo: You said that there is no other competition except innovator as far as this market is concerned at this point of time, but you expect definitely more competition to come in it somewhere?

Anant Atal: Not in the MDI for Fluticasone Salmeterol currently.

Anmol Ganjoo: Thank you. I will get back to the queue.

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

Nitin Agarwal: Thanks for taking my question. My question is on the South African and the African portfolio. I guess with the volatility that we have had in the currencies over the last few months now, I mean how much of an impact has it had on your supply chain management for South Africa because most of our production really is sourced from India?

Rajesh Garg: So clearly the ZAR has weakened and it does put some pressure on the business. But in terms of the topline, it does not happen exactly at that time; and gives us the ability to go back and get pricing. Private market is off-course in our hands but also with the government we were able to offset some of it. Now exactly it is difficult but effectively that was the good part. In terms the manufacturing piece, we obviously hedge certain parts of it, not the entire amount. We actually now invoice them in ZAR but then back here, we obviously have the natural hedge and in terms of whatever else we are doing in terms of exports and import of our raw material. So it all gets embedded within that. I think it is a well managed item on our agenda. But clearly if there are much more volatile movements then we would hope pricing happens but clearly all the players suffer from it because 80-90% of everything is effectively dollar priced in terms of bills and also lot of imports.

Nitin Agarwal: Secondly on the US bit, we started with a bunch of relatively plain vanilla products. I mean how do you see the US business our own front-end playing out as we go through in the next year, next few quarters actually going forward?

Anant Atal: I don't think the plain vanilla products should come as a surprise because we have guided to that and we had mentioned that the first wave of our own go live product would be plain vanilla. We spoke about the fact that we currently have about 40 odd ANDAs which we own. A lot of them are old ANDAs which we are going to try to commercialize over the next 12 – 18 months and then of course the pipeline which is either awaiting its final approval from the FDA and the new products that will get filed. A lot of those will get into

the future list. For North America in the next 18 – 24 months, it will be more these kinds of products and in only three years out when you will see some of the higher value products coming in.

Nitin Agarwal: My last question is when you look at the tender business from a corporate perspective, how important is the tender part of the business across different segments of malaria or HIV? And from a profitability perspective, how does it really stack up against your corporate profitability?

Anant Atal: If you look at our tender business across everything, Latin America or in Africa, the whole of the tender business is about 25% to 30% of our export business. If you think from a profitability point of view, it is actually quite good because when you look at our Cipla Global Access business which is significant, in that business it is effectively well over a \$100 million there is low fixed cost for that business, so your gross profit in that business is close to your EBITDA margin. It is really about the pricing power and the ability to become a preferred supplier to some of these big institutions. Get long-term contracts, get high volume and you are able to make a fair level of margin closer to our enterprise level structure.

Nitin Agarwal: That is helpful. Thank you very much.

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

Neha Manpuria: Thanks for taking my question. I had a specific question on the ARV Tender, two parts actually. The \$189 million which is for three years, so for an absolute basis, is the per year tender amount lower than what we had previously in the two year tender? And the second part of the question is, given the currency and the pricing that we have seen in the tender, are margins for this tender significantly lower than what we have seen in the previous tender?

Anant Atal: Actually the margins in this tender for some products are better and for some more or less same, so actually on a whole it is actually better than the previous tender. The way you should think about this is that over and above it adds to the run rate of our Cipla Global Access business. So it is incremental.

Neha Manpuria: Second on the US business, when we are looking at it more for medium term when we see the high value products coming up. Other than respiratory, are there any specific areas that you are focusing our R&D dollars into, which you would like to highlight more medium term?

- Anant Atal:** The second big chunk is Oncology and Injectables. If you look at our developed market portfolio, we are really going to focus on Respiratory, Onco and injectable space and anti-infectives.
- Neha Manpuria:** Thank you so much, Sir.
- Moderator:** Thank you. Our next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Thanks for the follow-on. Just a quick one on DPI for generic Advair US and Europe; can you just update us where you are in terms of regulatory filings, more specifically on the clinical trials?
- Anant Atal:** General sense is that we would like to have a product in market by say 2018-2019 or maybe beyond. If you kind of work backwards from there, you can assume a couple of years for approval and therefore if you say 2019 and you say 2016-2017 when you would file. So about within the next 12 – 18 months you would have to file and that means you would have conducted clinical trials by then. That is an aspiration and we will try to bring it as forward as possible.
- Sameer Baisiwala:** So just on what you have said, by now you should have started dosing the patients?
- Anant Atal:** Very close to. I think over the next year.
- Sameer Baisiwala:** So have you started doing that for US and Europe?
- Anant Atal:** We are not saying whether we have and where we are exactly; whether we have started clinical trials, how many patients, etc. We expect to have the filing in over the next 12-18 months.
- Rajesh Garg:** It is one of our top projects and it is on track.
- Sameer Baisiwala:** Sir, I can see others on the site clinicaltrials.gov but not yours and they are probably a few months to about a year ahead of you.
- Anant Atal:** Yes.
- Sameer Baisiwala:** The second question is on the vaccines with Serum Institute. Have they already done some regulatory work to get access into Europe or would you be starting with that afresh?

Anant Atal: It is both. There is a lot of regulatory work actually which has already been completed or about to be completed. Then of course that pipeline will continue to build and more filings will come in.

Sameer Baisiwala: Okay. So, have you submitted any dossiers so far in the Europe?

Anant Atal: We cannot comment on that Sameer.

Sameer Baisiwala: Thank you. That is all from my side.

Moderator: Thank you. Ladies and gentlemen that was the last question due to time constraint. I now hand-over the conference to the management of Cipla for closing comments, over to you.

Rajesh Garg: Thank you very much all of you for your time. I think we hear you clearly, we will take your request on the geographic split. We continue on our path of getting more confident of and giving you more transparency. We are hopeful we will give that to you. I think we are on our journey and we need your support and we look forward to the next call.

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