“Cipla 2QFY15 Earnings Conference Call”

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Moderator Ladies and gentlemen, Good day and welcome to the Cipla 2Q-FY15 Earnings Conference Call hosted by Kotak Securities. The duration of today's call is 45 minutes. As a reminder, all participant lines will be in the listen-only mode. There would be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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 Ms. Chirag Talati from Kotak Securities. Thank you and over to you sir.

Chirag Talati Thank you. 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, Mr. Anant Atal – Head of Investor Relations and Business Transformation along with their colleagues. I will now hand over the call to Mr. Rajesh Garg for opening remarks. Over to you sir.

Rajesh Garg Good evening to all of you. Thank you very much Chirag and welcome all to our second quarter earnings call. I have with me my colleague Anant Atal who heads Investor Relations amongst other things.

I hope you have received the brief investor summary that we had posted on our site and was also sent to most of you. Like last time, I will walk you through some of the key highlights of our performance. You will be able to link to my commentary from the slides.

We have had sales growth of 5.9% versus last year same quarter, ending at 2630 crores and our total revenue for the same period grew by 9.3%.

Our India business continues to perform very well and it outperformed the market with 20% growth year-on-year while most estimates suggest that the Indian pharma industry grew at 11%. I think this is now also visible in our market share where in India our market share is more at approximately 5.1%. Our export performance has been muted this quarter and we will go into some of the details later today in Q&A.

In terms of EBITDA for the quarter – it is in line with our previous quarter as well as in line with our plan for this year. We are now driving product mix improvement as well as good cost management across manufacturing and procurement. We have had very good operating cash flow where we have seen a 20% improvement versus last year, primarily driven by us managing our cash conversion cycle as well as effective capex management.

During the quarter, Cipla reaffirmed its AAA credit rating by Fitch. We continue to de-risk our business via our front ends build out in key priority markets. You would have picked this up in some of our recent announcements in Yemen, Iran and Sri Lanka. We are now seeing traction in in-licensing of products as well. For example, the in-licensing agreement with Gilead where we are now allowed to manufacture and market Sofosbuvir and Ledipasvir under Cipla's brand name in 91 countries, giving us access to 130 million patients.

We have also done a benchmark marketing collaboration in South Africa with Teva. They are as you know the world's largest generics company and have a formidable portfolio. They had been looking at their plans in South Africa and realized that Cipla South Africa is actually best suited and best placed to take full benefit of that portfolio. We get access to over 65 new molecules and this is very much in line with our commitment to advance affordable healthcare for all South Africans. We also completed an out-licensing deal with Salix for Rifaximin Complexes, the whole patent family which is controlled by Cipla. This is a grant on a worldwide basis excluding countries of Asia other than Japan and also excludes Africa. It is a combination of upfront payment, milestone based payments and then a royalty on all the sales. We have also entered into an in-licensing agreement with Medicine Patent Pool that allows generic manufacture of TAF. This is very much in line with our commitment to the cause of HIV and AIDS and this sub-license will allow generic manufacture of TAF for 112 developing countries.

During the quarter we launched Salmeterol Fluticasone in key European markets like Germany, Sweden, Slovakia, and Croatia and these launches are through our direct to market. If we head across the Atlantic, our North American go-live plans are on track for early part of 2015. In South Africa, we are executing a respiratory and oral solids tender which we had won last quarter. For our plan to be ready for the future and also to really help Cipla continue to transform, we have had the biggest IT implementation for Cipla where we have moved 40 legacy systems on to SAP and we cut over live on 5th November. So far we feel we are having good transition to SAP.

On our manufacturing front – we have embarked on the journey of long-term network optimization where essentially we have mapped our entire capacity and demand across our five year strategic plan, across all 32 dosage forms across all our factories and it is all done in a very scientific way. We have modeled it and I think we are comfortable now that with the scale and complexity that Cipla has, it gives us a lot of comfort that we have our arms around the complexity and can much better optimize it going forward as we build out our capacity as well as drive operational efficiencies, and be very precise about our profitability across all SKUs and hence continue on our path of SKU rationalization.

In our R&D front – we have more than 250 formulation projects underway and our filing intensity continues with more than 800 international filings during the year and 18 filings for Europe and North America.

On the organization front – our leadership team is clearly now helping us deliver our plans. We are also very pleased to announce today two new board members, Dr. Nachiket Mor – ex-ICICI board and also a well-known personality including being on the RBI board, Ms. Punita Lal who has been in various leadership positions across the globe for Pepsi and now serves on several boards. We are very excited and now looking at our whole board, I think we have got the right mix of diverse individuals and leading practitioners to help guide the company through its transformation.

Lastly but most importantly in terms of quality – we continue to maintain our highest quality standard and as usual during the quarter we have faced several regulatory audits and we have completed all of them successfully.

With that I will hand you back to Chirag.

Chirag Talati Can we open the floor for participants please?

Moderator Thank you. We will now begin the question and answer session. The first question is from the line of Shashikiran Rao from Standard Chartered Securities. Please go ahead.

Shashikiran Rao My question is regarding Rifaximin out-licensing deal, can you provide some timelines and scope of the benefits that you might see for this out-licensing deal?

Anant Atal From a deal point of view there are a couple of things. We will receive an upfront payment, which we actually received this quarter, and upon achievement of different regulatory milestones we will receive certain payments and finally when the product is actually launched we will receive certain royalties on net sales. Now from a point of view of actual product launch, that is very much in the control of Salix. Our internal expectation is sometime over the next three years. It will be baked into our guidance.

Shashikiran Rao Okay. Have you disclosed how much is upfront payment and in what line item have you incorporated it?

Anant Atal We have not disclosed the payment. It would be covered in other operating income.

Shashikiran Rao Okay. And what's the other product actually in right now, I mean product stage of development?

Anant Atal It is important to understand that we are actually not developing the drug or developing the product, we had certain intellectual property rights which we have out-licensed to Salix, so Salix will actually run the development program.

Moderator Thank you. We have the next question from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal Sir two questions, first one is on the respiratory franchise that we are developing. We had earlier guided that we are looking for a UK approval in the January to March 2015 quarter, are we on track and would it be a substitutable product? That's the first question.

Anant Atal I don't think we had given a specific date with respect to when we would actually launch the product. Our statement was that over the next 12 to 18 months we will have this product across most European markets. And the explanation that we gave to you was that it is difficult to predict exactly when the product hits the market because you may have received approval from the DCP as per the decentralized process but then you still need individual country approvals, as in marketing authorization from individual countries. So that process can take anywhere from 3 months to 12 months and potentially longer and that is a local country affair of government activity which is not necessarily in your control. So for example in the case of Germany we knew we had approval but till we actually get the individual marketing authorization from the respective country you cannot launch the product. The fact is you may have the green light but you cannot get the product in the market till we get that piece of paper. In that context our

guidance was that within the next 12 to 18 months we are reasonably comfortable that across most European markets, our product will be available. It is very difficult for me to comment that by month x we will have this product in this market.

Shashikiran Rao Right. And would this be substitutable?

Anant Atal So again, what do you mean by substitutable?

Shashikiran Rao No, like it is a generic prescription by doctors, would the chemist at the store level would be able to?

Anant Atal For Germany and Sweden for example, you have got the MA from European regulator, that means that our product is equal to the originator, which means that we can expect equal efficacy and safety. But the word substitutable itself has different connotations in different markets. For example in Germany, yes, it has equal efficacy and safety but the prescriber still needs to write your product or needs to say I am willing to substitute the patient. Similarly in Sweden you need to get on to the formulary list which is, yes it is substitutable as described above, but it is not like an oral solid substitutability where the very next day you can switch.

Shashikiran Rao Right. And are we taking measures to induce that kind of sales using some sales force?

Anant Atal Yes, we are. It is a reasonably conscious strategy of creating massive push in the market and awareness in the market. We actually started that well before the actual launch to raise awareness of the product. And also from a feet on the street point of view it is a very specialized sales force which is contracted, and is not going to be on our rolls for a long period of time. They are contracted for a short period of time, with a targeted objective to how many physicians you reach, what is the message that you give, what is the kind of conversion you expect. This would be a burst of say six months and then the traction should automatically happen, and you may not need to maintain that intensity.

Shashikiran Rao And similar kind, is the UK approval similar to what we saw in Germany and Sweden, is that fair to assume that we will have to market these products?

Anant Atal Yes. But again the nuance will be different in different markets, you may be able to get market share slightly quicker in the UK than in some other markets because just the way the structure is set up in the UK.

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

Nimesh Mehta Once again on the UK inhaler approval, so specifically talking about the UK market where I think substitutability probably is a norm. If not please correct me, in that case are we looking at a product which is switchable at the chemist level?

Anant Atal I think the answer is pretty much the same as what we just said.

Rajesh Garg So in UK basically our marketing teams are going to approach the various NHS trusts and it is quite a well-established pharma-co-economic discussion and based on that it becomes substitutable.

Nimesh Mehta Yes, I now understood what you mean to say. Okay next, if you can throw some light on why the export sales was muted this quarter, you mentioned that in the initial comment.

Anant Atal Yes, at a broad brush it is really three or four factors. Firstly, if you look at absolute business which has reduced, there are two main elements to it, one is the third party API business has reduced significantly and the second is that we have less tender business as compared to last year. On the API business it is an important point to note that while the third party sale may have reduced for some products we have proactively decided to divert some of that business for our internal captive consumption. So while you may see a lower sale it is being used elsewhere.

The second point is that we did face some supply constraints in API and formulation manufacturing capacity and this was more from the point of view of bottleneck in a line or actually a line being upgraded to a new technology or just multiple orders landing at the same time so therefore you had to trade off or re-sequence your actual manufacturing. The third reason which we touched upon last time is that we are in the midst of overall enterprise wide partner, portfolio and market rationalizing so there is an element of that. We are trying to really look at the tail and identify do I really need this product, can I either increase the price and make the margin significantly better or am I better off from a complexity management point of view by not having that product, market or partner in our system.

The fourth element is the big focus on ensuring that we actually have a smooth integration on some of our recent front-end builds like South Africa, Uganda, Sri Lanka and Yemen. As we go through this transition we want to make sure the base business is secure, that all the processes and systems are completely aligned before you try to do something major from a growth perspective as you may actually end up suffering later on. So it is a combination of these four. We are maintaining our overall guidance for the year, we said mid-teens growth for the full year and we are definitely on track to achieve that and in Q3 and Q4 you should see some of that growth momentum coming back.

Nimesh Mehta For the export part, do we have to take it as a base from here on, I mean based on whatever you mentioned there seems to be a kind of a base on which we need to model our number?

Rajesh Garg Well, not totally, I mean some of it will be recovered where especially things that were driven by the supply constraints they should have fast recovery which is why even the second half we are hoping to go back to our original plan. But yes, in a way it is a base but it has elements that will recover faster than what you would think because there are no demand issues. I think we are very comfortable with how the various teams and front-ends are operating. So that part is quite secure for us.

Anant Atal And you need to look at the base at an annual level because one quarter may skew the picture a little. So on a base of say 10,000 crores top line that we did last year we have said 15% so that's

the base business which is growing. Of course you will split domestic and export out of it. Domestic may grow at 15% - 16% and for exports you can work back the math to understand what it will grow at in the second half to get us to that mid-teens level.

Nimesh Mehta One question if I may, if you can comment on whether we have launched generic Baraclude that is Entecavir along with Teva, that would be great if you can let us know about it.

Anant Atal Yes, it is baked into our guidance that we have given.

Nimesh Mehta But we have not launched it this quarter?

Anant Atal Well, it is not like we are launching the product, we are supplying the product to someone else and they will market the product. We are a supplier to them.

Nimesh Mehta Is it in this quarter?

Anant Atal We cannot disclose the exact timing of it but it is baked in over the course of this year.

Moderator Thank you. Next question is from the line of Girish Bhakru from HSBC Securities. Please go ahead.

Girish Bhakru First question was on the recent FDA visit to the Indore facility, just wanted to get a sense were there any observations that FDA had made and what is the contribution of Indore to the top line in this quarter?

Anant Atal There were no significant observations as part of the recent audits whether it's Indore or any other facility in the recent past. In terms of the exact top line contribution of Indore, you can assume it is about 10% - 15% of our overall export. And it also contributes a small percentage, less than 5% towards our India business.

Girish Bhakru Okay. So contribution has actually increased to total 10% - 15% odd, is it?

Anant Atal Yes, exactly.

Girish Bhakru Right, that's helpful. Second question was on recent launch of Onbrez in India market, I was very surprised by that actually, my understanding is that this is a very interesting market, would you have a color on how big is the potential upside from this launch to the India growth and how strong is your case against Novartis**.**

Rajesh Garg See, the number of patients that this can cover is 1.5 crores that is the declared number of patients. We actually believe that there are much larger number of COPD patients who could benefit from this.

Anant Atal Yes. And at this point of time it is not about the business case, it is really about the patient need, there is feedback from physician community and from patients about wanting this product and we just felt that given who we are, it was critical we will take that step.

Girish Bhakru And would have the total number because I would assume you would be the only player for some time, right?

Rajesh Garg Well, we just launched it. Novartis has about 4,500 patients so the whole reason to go full on is to expand that base significantly. But as of now it is too early to give a number of how many patients.

Anant Atal You could do the math, if you assume that there is a market of 1.5 crores patients and you know what our pricing is of the product, you will be able to get a sense of what the potential opportunity is. But at this point for us it is just about ensuring patient access.

Moderator Thank you. The next question is from the line of Manoj Garg from Bank of America.

Manoj Garg Anant, like in the previous goal we have indicated that probably the second half would be much better in terms of margin performance and we will go back to the 21% - 22% kind of range, can you provide some color on that?

Rajesh Garg The whole year will finish very similar to what we did last year and as of now we are on track. H1 has been at 20.6% and we believe that in the second half on the slightly higher base of sales we should achieve the margin target.

Anant Atal There is no change in guidance at all. We are on plan to get to levels that we gave you.

Manoj Garg Fair enough. And second thing, just would like to understand how the things are panning out now in South Africa per say and overall in the pan-Africa market and had this quarter been impacted across margin market because of currency depreciation and if you can highlight that what could be the potential for its loss because of that or translation loss because of that?

Anant Atal I will take the first question which is overall South Africa and then broadly Africa. In South Africa, there has been very good traction in the market. I think the big focus in South Africa has been on maximizing the profitability of the franchise and being very selective with the government tender business. We recently won the oral solid and respiratory tenders. These are not tenders which we won traditionally, so this is actually a big positive for us. I think the second big news which you saw was the in-licensing deal with Teva which gives us access to almost 70 products and then over a period of time over 200. From a portfolio completion point of view it will make us a formidable player in South Africa and take us on the journey to reaching number two. The third point is from an overall consolidation point of view. We had a business case at the time of acquisition and we are very much on track to deliver that. So the business under Paul's Miller leadership is doing extremely well. We stay committed to Africa, to South Africa specifically and I think the real focus now is on execution and capturing the opportunity that we have there.

On broader Africa, the business continues to be very robust. You need to think of that business in two chunks. One is the institutional business which is the HIV, Malaria, Tuberculosis, reproductive health business which is a tender business but it is very much aligned to our mission and values. That business continues to grow. It is primarily focused on the malaria and HIV

space. We won a big tender in ACTs last quarter, so it is just about execution and delivering to ensure our growth is robust. The Uganda acquisition is very much on track. There are elements where we are even outperforming some of our initial forecasts, specifically with respect to demand generation as well as factory productivity in Uganda. This is not just in Uganda, but in Durban as well. So that's positive news. We stay committed to the rest of Africa – markets such as North Africa and East Africa, where we have a clear plan and it's really about execution.

Manoj Garg Sir, if I can squeeze one last question, when will we start seeing the traction of all those initiatives which we have taken over the due course, when this starts reflecting in terms of our performance?

Anant Atal For Africa specifically?

Manoj Garg Yes.

Anant Atal It is already reflecting in our performance. We have not given some of the regional breakup from a revenue point of view but the international business as well as the institutional business is performing well. And once we do show you the split you will see that the performance has actually improved over last year.

Moderator Thank you. The next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta Just wanted to understand how much is the R&D spend this quarter?

Anant Atal It has increased relative to previous quarter and is close to about 5%.

Sonal Gupta Okay. And just in terms of getting a better understanding of your strategy because you seem to have a very aggressive sort of global go to market front end sort of strategy. So I mean a lot of these already fairly meaningful markets for you where you are setting up these front ends because I am just trying to I mean like in one of the previous calls you had talked about build versus buy versus I mean a distributor model. So do you have enough pipeline of products in these markets where you can see revenues coming through very quickly and therefore these markets being profitable or do you expect an initial hit on margins because of these expansion?

Rajesh Garg See, most of them are part of our strategy of de-risking. All these are where we actually have good market positions for example Sri Lanka, Yemen, Iran and hence we have gone out and made sure that those are de-risked and we have full control over them as well as the future. We need to be thoughtful about how many products to register in markets where we don't have control. But now as we switch to our business model and that's why you see such large number of registrations that we are doing, it's part of that. And of course it takes a little while to stabilize, getting all the human resource angle is probably the most complex. From a product standpoint, brand standpoint and actually competitive positions I think we are in very good shape in all these markets. Obviously each of these are relative to in sync with their population they are all small markets but actually good thing is that they are all growing very fast and many of them are opening up in a way that healthcare expenditures are rising very fast. So I think that's why we

are very pleased with that and pretty much all of them are good add on to us de-risking and also giving better margins.

Anant Atal Yes, exactly, that's an important point which is that a lot of these are margin accretive on day one and the payback period is reasonably short. So these are quite compelling acquisitions. Further these are markets where we have operated for 10-15 years plus so we have fair insight into those markets and it's not new.

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

Nitin Agarwal For the second half of the year, when do you expect this material pick up in the revenue growth, I mean what component of the export business are you seeing really getting a move on going forward?

Anant Atal There are really four elements. One is the India business which we expect will continue to grow and maintain its existing trajectory. That's one core element. The second element is the European respiratory launches. These all happened towards late September, mid-September, so some of that traction will start coming in the European market, so that's the second element. There is a third element on the institutional business. We mentioned that there were some capacity constraints in the first half of the year, a lot of that will get released in the latter half of the year. And finally there is a fourth element which is around the South Africa business opportunity where we won the tenders and now the uptake is starting. The respiratory season is going to start and the oral solid tender is also ramping up. So I think it is going to be a combination of these four and of course the core business itself is going to be motoring along

Sonal Gupta You don't see the UK launch or some launches in US being a material contributor in second half?

Anant Atal So when I talked about respiratory, I covered that element there. But I think you have a point where some of our direct to markets in Europe and some other international markets can help drive additional growth.

Sonal Gupta And secondly, for us is generic Nasonex near term opportunity for us over the next say two to three quarters?

Anant Atal We won't give specific timings but it is not a near term opportunity.

Sonal Gupta Okay. And if I can probably squeeze in a last one, you mentioned about, the other operating income has come out pretty high in this quarter, so how should we look at other operating income on an annualized basis, it was 340-350 crores last year, it is already 200 crores for the half of the year, there is obviously a degree of lumpiness to it but from an annual perspective how should one model it?

Anant Atal You need to look at it from a full annualized basis because there was a component of the Salix transaction which came in this quarter. Last year we had Meda there. Our intent is to keep that number on an annualized basis reasonably stable and try to grow it to the extent possible. So for

example our mindset is that we want to do one to two 'Medas' a year on a steady state basis going forward. Ideally we would like to maintain that growth, but again it's very difficult to predict from when you can get the deal and it can happen tomorrow or via prolonged negotiation or the development cycle itself can take longer than expected. The best way to look at it is on a full year basis and just take that as a base from which we would like to grow.

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

Sameer Baisiwala Is it possible for you to share just some broad ballpark, how has been the pricing for the generic Seretide to the extent that you have launched so far in Europe?

Anant Atal It has been at about 50% discount.

Sameer Baisiwala Excellent. And how has been the reaction by the buyers and all, did you think this pricing will hold or would you be required to make any changes.

Anant Atal I think there is overall good traction with physician, payers and wholesalers. They understand that there is an extremely strong value proposition which is based not just on cost economics but also that it is a high quality drug device combination. People appreciate that and understand it. There is still an element which I kind of touched upon in the first question, on education. So really telling people who Cipla is and getting that market to appreciate another player or the only alternative player. So there is a bit of that traction we need to be creating. But I think overall from wholesaler, payers, physicians there has been extremely positive feedback. Some of the initial data on translation of the calls to prescriptions has been extremely positive for us.

Sameer Baisiwala Okay. You have so far been in four markets or so but if you were to expand it to maybe a dozen in 12 to 18 months, would you expect weighted average pricing to be any different or do you think this is what would go in other country as well?

Anant Atal It is very difficult for us to comment. You can go with the fact that this is what is there in the market and assume that. But we will have differentiated pricing across markets.

Sameer Baisiwala Okay. And the second question again is on the same product, you have launched this earlier, if I remember correctly in South Africa, Russia, etc., I am talking of couple of years back. Just about the take up, I know you are engaging well with various buyer constituencies; the question here is how should we think about the penetration, how should we think about volumes that you are going to ramp up, is it going to slow, gradual, it is going to be very quick and this is just on an average, I know country to country it will be different.

Anant Atal Respiratory device uptake is probably going to be slower than is the case for say simple oral solid. There is a lot more complexity and nuance around education and engagement with the payers and the physicians. So the ramp up definitely takes a lot longer. Both in Russia and now actually in South Africa we are seeing good traction. In South Africa it is actually our own salesforce, so we are seeing significant growth rates in excess of 25% - 30% there. Russia continues to be stable, given that the product has been there for a while and we are the second

player there. It is very difficult for us to give you guidance on by what year you would expect what market share. But over 18 to 24 months period you should be at a reasonably good place.

Sameer Baisiwala What is your market share for the same products in Russia and South Africa right now?

Anant Atal Unfortunately for Russia we cannot disclose because of the agreement we have with our partner there, on South Africa, I do not have the number with me off hand right now but I can dig it out and see if we can share it with you and make it public again.

Moderator Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak In the exports market you gave four five reasons for why the growth was subdued this quarter, it would also be helpful to me if you can region wise give some granularity in terms of how those regions grew in their constituent currency.

Anant Atal We aren't giving regional breakups at this point of time, because on a quarter on quarter basis it gives a little bit of a skewed picture especially as we are transitioning from the B2B to the DTM model. But again, you saw the kind of growth rates we had last year, you have seen the growth that we are having in the India business, on the international side I think we will have fair growth across pretty much most regions.

Dheeresh Pathak Okay. Last quarter in the US you said you know you had 90 products approved and only 40 launched and you were waiting for various state licenses and ironing out supply chain issues, can you just provide more color there?

Anant Atal Yes, I think Rajesh covered that, we will actually go live with our own products from early part of 2015.

Dheeresh Pathak Okay. And in the mid-teens revenue growth guidance is UK Advair MDI baked in that guidance for FY15?

Anant Atal I am sorry, I cannot comment on that. I think 12 to 18 months is the kind of timeline and you can take for European respiratory portfolio. We will get to it whether it is there or not there. I think that's the milestone you got to take into account.

Dheeresh Pathak Okay. And lastly when you are establishing front end in various markets, what does it involve, is it simply buying out the partner who had the registration or in some cases it is creating new registration of your own and establishing your own MRs, I mean can you just give a examples of few markets of what you are doing when you are establishing it.

Rajesh Garg So it is a different strategy for different markets, so let's take one example in Sri Lanka where essentially we now have 100% ownership of the market authorizations, so that is one step. And then obviously there was an existing set up where the partner had a sales force which is let's say medical reps and then he had the infrastructure to distribute. So in this case we have taken a partnership, 60% ownership with CIPLA and 40% with the partner and that entity now has

medicals reps who have built Cipla as the leading brand in Sri Lanka. And then the existing last mile distribution continues whatever goes right. So that is one model.

In some cases where there is no need, the nature of the market is such that you need only handful of people or the distributor would themselves keep it where we actually don't need it from a sustainable competitive advantage standpoint, there is no merit in having your own sales force. Or if the nature of the market is such that you don't need to have a very large sales force, in that case don't establish. So I think it is really horses for courses strategy and fit for purpose for each market.

Dheeresh Pathak What about product registration?

Rajesh Garg Yes, so definitely that's the first step and then once we have our own so pretty much all of these front ending activities include setting up our own branch office or actual subsidiary depending on what is allowed by that market. Putting the existing marketing authorizations in many cases they were co-owned, in some cases, although they were asked if they needed NOC, so all that is done and then entity now holds that and then it is now in all our own interest to pump in as many registration as exist because given our history of very large number of product so very larger number of market, we don't have a dearth of products, obviously we go through prioritization because all these registrations take some cost which is also reflected in some of our numbers now. So it is a very well thought out strategy. Our international team has almost become as a template and which is quite useful for the corporate people as well to know exactly how to do it and then we have got specific project teams, integration management offices to hold on to each of these markets and convert them and with selective deputation of key people from India in some cases.

Anant Atal Correct. It is important from the point of view that we want to own the product. So it is a good combination where you own the intellectual property so as to say and the partner has the local market expertise from getting the product cleared and then approved and marketed in that specific market. There is another nuance by the way which is, in addition to just pure distribution agreement there, also manufacturing. For example in the case of Iran and Yemen that joint venture also includes a manufacturing facility where we are supporting and helping with the equipment, with the technical know-how and in lot of cases those local markets require local manufacturing and that's the way lot of markets are moving. So if you need to compete and you want to get some kind of preferential access you need to have manufacturing there. So that's the other big driver.

Moderator Thank you. The next question is a follow-up question from the line of Manoj Garg from Bank of America. Please go ahead.

Manoj Garg So Anant like basically on the India side of the business, just would like to pick some thoughts, is it probably that the respiratory season in the last quarter was pretty helpful or you have seen broad based portfolio growth in the domestic market?

Rajesh Garg It was pretty broad based so there is no specific, there is a seasonality that is always there but it is actually more in the winter so that part is there is no change in our respiratory being their driver. But overall actually we have a lot of pockets of good performance. We are driving a huge focus on productivity, huge focus on training of our medical reps in terms of KPIs, in terms of in clinic excellence. So I think we always had a lot of excellent underlying capability. It's just that we have now put a scientific sort of underpinning to it and that is yielding results day in and day out.

Manoj Garg And is it possible for you to quantify that what could be the upside potential from the in-license deal which we have at Gilead for those two molecules and how big this opportunity could be for us?

Anant Atal At this stage the opportunity is about driving access and providing patients the medicines that they need. But if you just think of it as purely as an opportunity, think of India as a market where you have got 10 million hepatitis C patients. Gilead launched this product in Egypt for about $900, so that's almost the starting price, now you want to obviously bring it down and make it as competitive as possible but that's almost a starting point. And then for us from 91 markets which we have access to and the reach you are talking about, 110-120 million patients. Assuming you have a lower conversion rate or a lower uptake, it is still big, I think the challenge here Manoj is not going to be about demand, it is going to be about being able to manufacture the product and supply as much of it as you can. So the big focus now is on getting the capacities, getting the raw material and really setting that up so that you can reach the patients when they need drugs.

Manoj Garg Okay. And the last question from my side, like on the R&D side you have indicated 18 filings for Europe and North America, can you further break that into how much filing has been made in the US during this first six months of filings?

Anant Atal US is about 7 filings and Europe is 11.

Moderator Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I now hand the conference over to the management of Cipla for closing comments. Over to you.

Rajesh Garg Great, I think we have covered a lot but just to close out, at the beginning of the year we gave guidance, we are very pleased that we are on track, which is a big tick to the transformation journey we are on. It's reaffirmation that our team is now coming into place. The number of M&A deals that we have concluded, the number of in-licensing deals we have concluded, the overall underline infrastructure upgrade from a technology standpoint. We are basically now ticking all the boxes of the journey we have been on, so that is the big plus. We have a clear roadmap for the second half of the year to achieve the guidance that we had given. So in a nutshell – we really thank you for your engagement and your continuous support. Thank you very much.

Moderator: Thank you. On behalf of Kotak Securities that concludes this today's conference call. Thank you for joining us. You may now disconnect your lines. Thank you.