



“CIPLA Limited Q3 Financial Year 2014 Earnings  
Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Cipla Q3 FY'14 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, 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. Krishna Prasad. Thank you and over to you Sir!

**Krishna Prasad:** Good evening and welcome to the 3Q FY'14 CIPLA Earning Conference Call. To take us through the results we have with us today the Senior Manager from Cipla, Mr. Rajesh Garg who is the Global CFO, VS Mani, who is the Head of Finance and Anant from the IR team. I now hand over the floor to the management.

**Rajesh Garg:** Good evening to all of you. Welcome to the Q3 Earnings Call. I am Rajesh Garg, the Global CFO and as Krishna mentioned I have VS Mani – Head of Finance and Anand Atal, Head of Investor Relations. As you all picked up from a past calls and few of the other press around us, we continue our 360 degree transformation journey. So before going into some of the numbers, I thought just come though it what we have achieved today.

So we have completed the assembly of a World-Class Leadership Team like our newly appointed India CEO, Sameer Goel, Global Head of Quality, who reports directly to the CEO, Head of International etc., and then all the associated governance structures. To add to it not only at the executive level today actually we have announced the appointment of Dr. Peter Mugenyi, who is extremely prominent figure and a leader in a global medical community from Kampala, who has joined our board. He actually helped US President Bush to formulate PEPFAR and he is a leading authority on treatment of HIV AIDS in Africa.

The other vital component of the change we are going through is in R&D and product pipeline where our spent is inching towards 5% versus less than 3% in the past. We secured our three years pipeline and more than 60% of our critical launches are on track. Our top 50 projects are now run with military discipline and we now have over 200 formulation development projects underway. Actually we are seeing a huge improvement in the efficiency of our R&D with more than 30% efficiency in terms of the time that it takes for them to bring products to market or at least to filing. For example, this year, year-to-date we have done more than 1000 International filings, about 60 in EU and North America and 16 API a bulk drug filings.

The other good thing we have done is the establishment of our Global Respiratory business. As you all know, Respiratory is an area of global strength and we have now created a business unit that is horizontal that straddles all our geographic units and also adds as a Centre of Excellence. The establishment of the ways of working between the horizontals, verticals and global functions is fast maturing, and frankly versus what I have seen all my life in other top firms they are very pleased with the progress. We have derisked growth in our critical market. I am not going to go

through South Africa but also added Uganda and Croatia and plans underway in Middle East, Africa and China.

These I think as I often talked are actually the good cholesterol that were increasing because it is really R&D and which is focus on the portfolio and then building the best organization, but in terms of costs manufacturing expenses continued to be well managed. They are actually 15% below budget but also less than last year. Simultaneously our overall supply chain effectiveness has gone up dramatically where our on time info which is the most critical measure has gone up from less than 30% to close to 90%. At the same time efforts on quality are significant where a new Head of Quality has established the New York and it is taking the Cipla benchmark which has always been well above any global standards even beyond. So I hope you have received the financial and performance highlights which are now available on the website. I will just give you overview and then hand over to Mr. Mani for details.

During the quarter the company posted a growth of 22% and for the year 20%. Domestic sales grew by 13% and export sales were up by 32%. I think the domestic sales business is going in mid teens despite all the uncertainties in the Indian market. We obviously continue our focus in increasing our market share in chronic Respiratory, Anti-Infective, Urology and other therapies. We have also expanding our presence and focus in the institutional segment, i.e. like Corporate Hospitals which are growing quite rapidly. On the International front, we have been consistently improving our business and I have already talked about how we have upped the filings. I will now request Mr. Mani to talk some of the key numbers for the quarter.

**VS Mani:**

Thank you Rajesh. Good evening everybody. The results for the quarter include basically the consolidate numbers for Cipla and its subsidiary both India as well as overseas. Hence the figures of the previous are strictly not comparable. Material cost has increased by about 1% mainly because of the increase in ARV revenues and we would also recollect the previous year we had a large one of from escitalopram. EBITDA margins for the quarter are lower at 18%. These are in line with as Rajesh already explained in terms of increase in R&D and ramping up the people and talent across the globe and other costs. The staff cost increase is due to increase in manpower. We have hired senior talent and also setting upfront in the US and EU.

Other expenditure has increased about 178 Crores largely on account of R&D and other related expenses. Tax of the quarter is in line with the average tax rate for the previous year. The capital expenditure for this quarter was about 90 Crores for FY 2013-14 the capital expenditure including routine capex is expected to be about Rs.400 Crores. Besides this there could be a rollover of previous year capex of about 150 Crores.

The outstanding amount of our contracts is about 220 million which runs at about average rate of 65 which substantially covers the outstanding debtors. During the quarter the company has gained about 40 Crores on account assets gain. With this overview I would like to leave the floor

open for questions, Mr. Rajesh Garg and we are available to answer any questions that you have. Thank you.

**Moderator:** Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Balaji Prasad from Barclays. Please go ahead.

**Balaji Prasad:** Good evening everyone. Firstly on the Global Respiratory unit, can you just help us understand how this is horizontally structured and where it is the responsibilities lie in terms of P&L does it have any profit and loss responsibilities and what are the KPIs for this unit and how the Senior Management is incentivized?

**Rajesh Garg:** Sure. Frank Peter who is also the Head of our European Business unit has a double hat. Given he has more than two decades of working in Respiratory across GSK and then TEVA in almost Global Leadership positions so he is the designated Head of Respiratory business unit along with being the European Head. He has a team, a small team in Europe but also a pretty large team back in India which basically is supporting him and doing market assessments, reviewing our competitive position and then also literally driving not only the strategy but working with the businesses to do the execution in market, so they do have a P&L but it is more a role up, it is a memo P&L where each geographic unit maintained the full P&L for all products but Respiratory then gets rolled in and I guess in terms of KPI it is really the overall revenue of the Respiratory business unit, the filings and really whole go to market, number of countries also in-licensing, out-licensing so it is a pretty good unit and I think this why what I talked it is actually working very well because it takes years for companies to establish such whether it is a category or horizontal which straddles geography.

**Balaji Prasad:** Thank you. It does sound very interesting so can we anticipate any launch of let us say Generic fluticasone or salmeterol combination in any of the geographies this year? Do you see any major launch of this coming through?

**Rajesh Garg:** Not this year. I think sometimes during the course of the next year we could see some of the launches.

**Balaji Prasad:** So any tentative geographies where you could see this launch?

**Rajesh Garg:** So we launched Duohale in Croatia which obviously a very small market but given and it just recent just last month, but obviously we now have our own front end. It is a small sales force so that should show some results but really it is very tiny market but it gives us the experience of launching in part of the Europe.

**Balaji Prasad:** I mean probably just wanted to see may if Germany is something that has been 2014 or 2015 for the Generic Advair launch?

- Rajesh Garg:** I think it would be pretty early in the day to speculate about Germany but I think during the course of next year we could be in a better position.
- Balaji Prasad:** Understood Thank you. My second question is on the filings, 1000 filings sounds impressive, how should we interpret this in terms of growth expectations overall for any major geographies?
- Rajesh Garg:** I think it is part of our plan so you know a lot of them obviously end up being more than five years away so but definitely it varies by country by country but clearly not something that will give a immediate benefit in two years.
- Balaji Prasad:** Last is just book keeping question, what is the R&D cost for the quarter and what is it likely to be for fiscal 2015?
- Rajesh Garg:** The R&D cost of the quarter is about excess of 4%. It is closer to 4.5%.
- Balaji Prasad:** How is it likely to trend next year?
- Rajesh Garg:** Well we expect it to be in excess of 5%. Why do not you say about the number of filings that we are doing obviously all this is towards building up a robust future so I guess you are going to see some ramp up of cost.
- Balaji Prasad:** Thank you. All the best.
- Moderator:** Thank you. Next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Can you share some light on how our other expenditure has quarter over quarter, 3<sup>rd</sup> quarter over the 2<sup>nd</sup> quarter of this year increased so much? I mean from 639 Crores last quarter has become 712 Crores.
- VS Mani:** Yes basically there was substantial amount of ramp up in terms of when the number of filings we gave a lot of that could be achieved in the current quarter so obviously we started filing largely in some of the new countries so those has added to the extra cost in terms of R&D.
- Chirag Dagli:** So there is no forex line item about the EBITDA, forex loss about the EBITDA?
- Rajesh Garg:** Also you must bear in mind that these are consolidated numbers so previous quarter was about 2.5 months of Medpro whereas this quarter will be full three months of Medpro. Also we have a small portion of Uganda getting added to that.
- Chirag Dagli:** But that should have benefited profitability as well sir right?

- Rajesh Garg:** If you really look at it I mean the reasons are pretty apparent. I mean we did explain our margins to some extent there were more of ARVs so we should not try a mix what the expenditures that we do for the future with the current one, obviously the mix had a role to play and some of these costs played on that so that is the reason why we see.
- Chirag Dagli:** This forex gain of 40 Crores where have we recoded this other income is it?
- Rajesh Garg:** Other income yes.
- Chirag Dagli:** So then there is no above the EBITDA forex loss?
- Rajesh Garg:** No there is no above the EBITDA forex loss.
- Chirag Dagli:** Thank you.
- Moderator:** Thank you. Next question is from the line of Prakash Agarwal from CIMB. Please go ahead.
- Prakash Agarwal:** Thanks for taking my question. Just a follow up of what the earlier participant had in terms of the other expenses, so you did speak about ramp up in filing cost but if I see in the last 1H 25% of sales has been other expenses this quarter you are at 28% of sales so do you think I mean this is largely pertaining to the filing cost or in the setting up of front end or I mean if you could give broader color on the same and would this be the base going forward?
- VS Mani:** This would be largely in terms of the filing and also obviously setting of a front end, but more towards filing this quarter.
- Prakash Agarwal:** So front end would be a part of staff isn't it?
- VS Mani:** Yes, front end only part of the staff so that would come obviously part of the employee cost in consolidated.
- Prakash Agarwal:** So in your view this staff and other expenses is this the current base going forward?
- Rajesh Garg:** Well, I think to some extent yes the base is set but obviously the benefits of this will come out in future.
- Prakash Agarwal:** My second question is with respect to combination inhalers good to know that we are planning in a calendar 2015. What I am trying to understand is when we launch our product would it be a directly substitutable product, generic substitutable product or would it be with the different device than what Advair uses currently?
- Rajesh Garg:** I think this Prakash, this is too early to give you answer for that.

- Prakash Agarwal:** We would as you said in Croatia has you have gone with your own front end so it would be fair to assume that across Europe markets you would go on your own?
- Rajesh Garg:** Not across, it is different strategy for different markets lot of the market is a B2B strategy only in few select market it is a direct front end, pretty much I think mostly B2B.
- Prakash Agarwal:** Okay and would you have a sense on one of your competitors Sandoz and Vectura having been launched this product would their product be AB rated I mean generics are substitutable?
- Rajesh Garg:** The ones in Croatia yes it is a Generic substitutable but as of now I mean as I said it is very early to look at the impact it has just launched end of December.
- Prakash Agarwal:** I understand that what I was trying to ask you one of your competitors Sandoz and Vectura have launched this similar product in four European markets, would you have a sense whether these products are generic substitutable?
- Rajesh Garg:** I think, I do not think we will comment on our competitors you can have a look at their performance in the market and you will be able to get a fair sense of what the uptake is.
- Prakash Agarwal:** Lastly talking about India business, I mean we have seen fairly a good recovery coming back so we should expect this growth momentum to continue or even better given the more emphasis on product baskets?
- Rajesh Garg:** Yes surely, I mean the India branded sales did pretty well and I think the moment in it is being quite well.
- Prakash Agarwal:** If I may add one more on the AVS side, how much we have filed on our own and with partners for the quarter?
- Rajesh Garg:** As of date during the current year we have filed about three through our partners and three ourself.
- Prakash Agarwal:** As on date meaning during the quarter or during the last nine months?
- Rajesh Garg:** During the last nine months. Products that are approved is about six and under approval is between 30 and 40.
- Prakash Agarwal:** So you filed three on your own and three for partners and you got six approvals?
- VS Mani:** Sorry, you are talking US right?
- Prakash Agarwal:** That is right US filing.

- Rajesh Garg:** We got six approvals and we have also filed 35.
- Prakash Agarwal:** You filed 35 overall or during this nine months please?
- Rajesh Garg:** Products under approval today are 35. The products approved during the last nine months are six and the products that we have filed during the last nine months is 10.
- Prakash Agarwal:** That helps. Thank you.
- Moderator:** Thank you. Next question us from the line of Aditya Khemka from Antique Stock Broking. Please go ahead.
- Aditya Khemka:** Sir firstly on the India market, as the impact of the pricing policy now being completely reflected in our sales or would some impact still come up early from the pricing policy in India?
- VS Mani:** No, with the current products that have gone through the DPC is fully reflected obviously has new products get into it then that impact would still come but as of now yes it's all reflected in.
- Aditya Khemka:** Okay. Sir how many sales personnel we have on the ground in India?
- Rajesh Garg:** 7000.
- Aditya Khemka:** Last question from my side. In terms of how you are going about consolidating the company in terms of establishing the front end so do we have, the problem that I see there is that you will acquire a lot of businesses which are may be lower margins or lower return business you're your own than CIPLA standalone business that was there so may be a consolidated returns profile mix may suffer a bit because you are acquiring assets and comparably lower return on the capex, so is there a benchmark internally that we have set on the return on a capital employed the return on equity which would perhaps keep an eye on while we are in this consolidating phase?
- VS Mani:** Clearly the acquisition are actually in the variety of geographies and a variety of business models so not all are dilutive but clearly some end up being becoming more a front end and back end so with an look at it as a complete business but then obviously it also helps while you may suddenly say the collective margin is dilutive but reality the business is derisked and then it moves away from being sort of driven purchase order to purchase order, so it changes the dynamics of how we manufacture for its overall, we can then further optimize the overall business. In terms of, I mean we have pretty stringent and we are continuously actually upping the minimum thresholds in terms of return on investments and also I would not want to give a number for now but it is a very stringent financial analysis and threshold at we collectively look at all new investments now.
- Anant Atal:** And it almost a two lens approach, are we the better owner of the asset? So and that would fundamentally mean that the business performance would improve over a period of time and you

kind of naturally get a payback and second is can you really swallow the worst case, so our analysis we always have a worst case and that worst case should be something that we can digest reasonably easily.

**Aditya Khemka:** One last question Sir. It is just a book keeping question, your capex budget for FY 2015 you said it is 850 Crores. Is that correct?

**Anant Atal:** We do not any capex of 850 Crores for FY 2015.

**Aditya Khemka:** You mentioned some capex number in your introductory speech?

**Rajesh Garg:** It is about 400 Crores in the current year so far and we had a rollover of the previous year could be about 150 Crores so all in all it would be about in excess of 500.

**Aditya Khemka:** Thanks a lot for taking my question.

**Moderator:** Thank you. Next question is from the line of Girish Bakhrum from HSBC. Please go ahead.

**Girish Bakhrum:** Thanks for taking the question. First was on the US market have you launched ipratropium salbutamol?

**Rajesh Garg:** We have got the approval but we have not launched.

**Anant Atal:** We are currently going through a series of discussions and we hopefully have, you will hopefully see some news this year.

**Girish Bakhrum:** But I mean discussions will result in a launch it I mean what is the exactly the block that is preventing you from launch?

**Anant Atal:** Yes, we are working through end customers to work through so it will be a launch.

**Girish Bakhrum:** Can you share broadly what is the market size, I know the competition is limited to only three more players beside you, is market really attractive I mean I would assume so, right?

**Rajesh Garg:** Yes, I think, if you see some of the IMS reports it talks about something like an excess of a 200 million dollar market and I am not sure exactly the numbers of players but it is something that we think we can capture. We can garner into the market share.

**Girish Bakhrum:** Right, and is it fair to assume like given that you have a single drug inhaler approved now so I mean the device related issue wherever this MDA device can be extrapolated you can see more approvals in the US market?

- Rajesh Garg:** Yes definitely, going forward as we rightly said that the work that has started we will definitely see some more approvals there.
- Girish Bakhru:** Just related on the US again in terms of filings good traction in number of filings and we have also seen you entering different therapeutic areas in terms of filing differentiated products. Is there any color on which products or which kind of markets you want to go independent and which you will still keep with the partner? Some color on where are you driving the differentiation, where CIPLA would want to make their front end felt?
- Rajesh Garg:** To some extent the going with partner has been largely historic so obviously going forward while we will definitely work with some of the partners but we also have a ready program important program that we want to do many of them on our own, and also what you should know is that some of the ANDA that we had filed through our partners in the past due to business combinations are back with us, so in some ways all these are undergoing a substantial operational readiness review and we expect to launch some of the in our own label going forward at some time during the course of the coming year.
- VS Mani:** Correct and the classic risk return trade off right, how much money or how much investment would direct or indirect cost versus the expected return and as we look at our entire portfolio we will take a full portfolio view where we will say a certain set of them we might decide to partner purely to manage the risk and rest we can go direct.
- Girish Bakhru:** Right, and like you said there are six approved in last nine months so these, I mean I am just not very sure are they are commercialized?
- Rajesh Garg:** Well, some of them through the partners, some of them would have been commercialized, some of them as, as you just spoke about one of those are obviously we are, to do on our own obviously we are planning to when we go we will have to use our own labels and we are working towards it.
- Girish Bakhru:** Okay and just lastly before I join the queue. I mean you have commented on some of the acquisitions being dilutive in the near term. Any color on say I mean how and when you use Medpro front end effectively and turn around profitability overall for these Cipla entity?
- VS Mani:** So I did not think we have said any acquisitions will be dilutive. We are responding to your question in terms of margins, so yes it is a mixed portfolio but overall we will not, even South Africa for example is accretive from next year and flat this year.
- Girish Bakhru:** Right, so you mean margins will essentially improve on the account of Medpro from next year is that fair to say?
- Rajesh Garg:** That would be fair to say.

- Moderator:** Thank you. Next question is from the line of Ranjit Kapadia from Central Broking. Please go ahead.
- Ranjit Kapadia:** Good evening. My question relates to ARV business, you said that the material cost has been affected so was it a tender business or is the regular course of business?
- Rajesh Garg:** Some of these were tenders.
- Ranjit Kapadia:** Sir, my second question relates to the Respiratory team we have said that we have set a Respiratory team globally so how many countries we have sir entered in that?
- Rajesh Garg:** See the way it works is they are assessing a very large number of countries because as you know, you know globally we export to 170 countries but much smaller subset of that is where it makes sense to have a very robust sort of presence and even that has to be faced. But overall I think the key is with the focus what it gives you the understanding and kind of people who join the team they understand the dynamics of how Respiratory works, what is the relationship of for example of patient and his inhaler is not so easy to just say switch out so if you can understand Respiratory is one of the categories with the lowest penetration of generics so on one hand we stand at that opportunity but on the other hand it is not cakewalk to walk in so we are doing those assessments, but the teams we have are spread all over. There is couple of people in the America's, couple of people in Europe and couple in Middle East Africa.
- Anant Atal:** To add to that the people, the people who are in the respective markets are primarily there because they bring certain regulatory expertise, or they bring expertise on how to do run clinical trials in those markets, so it is not like we have gone and just plunked people on the ground, it is very specific skills that we have hired in those markets and the idea is to keep it centralized so that you can actually have the project management decisions, disciplines so you can launch it on time, but at the same time we get the local market expertise into that project management system.
- Ranjit Kapadia:** My another question relates to the market share of inhalers in domestic market?
- Anant Atal:** The inhalers I don't have an exact share but I think that would still be around 70% in inhalers.
- Ranjit Kapadia:** Thank you very much and wish you all the best.
- Moderator:** Thank you. Next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Good evening everyone. Thanks for taking my question. Rajesh, if I got, you correctly you said something like 60% of your pipeline for the next three years is secured if you could just elaborate on exactly what you meant if I follow you correctly?
- Rajesh Garg:** Basically the plan that we have so we always have in our projects I mean in terms of development of products so 60% of those are looking like they are well towards their finished

line, are they completed or on the way with final point versus the rest are still work in progress so at any given point in time as of now we feel very confident that for the next three years that is the amount that we have secured and really the impact has been because of the discipline and a very high quality portfolio and project management team that is in place which is resulting in, so the capability is always there but I think it is now pushing it in a systematic manner, the structured governance around it and which is you know making a increasingly more confident of delivering better faster results through our great R&D team.

**Anant Atal:** Basically the filing dates right, we said we are going to file on day 'X' and that is what we are tracking with without actually changing that, when we are saying based on time the project started it and the targeted filing date 60% of projects are on track.

**Sonal Gupta:** Okay so basically these are the filings we expect to may go the next three years and you probably initiated or you sort of on track on 60% of those as of now?

**Anant Atal:** Yes.

**Sonal Gupta:** Anything in terms of because I mean clearly the other expenses are we going to see these things I mean I guess somebody asked that it is sort of a base but are we going to see these expenses in margin sort at least bottoming out here or do you think that is still given your strategy in the near term you could see some more pressure on the margin front or do you think that the expenses etc., are sort of peaking out and you will see a more normalized increase from here on?

**Rajesh Garg:** Yes so basically you know we have gone through quite a phenomenal transformation in the past 12 months and that has reflected in which we have always talked a couple of points of investment and I think that happening and that already there and now we need to now you know obviously come into execution mode and you know that is what we already starting to see in the topline.

**Sonal Gupta:** I think Mr. Frank has been there for the last couple of years right, so any specific milestones that you could highlight that you achieved on the Respiratory side as of now and I have also believe that you launched Seretide in South Africa and Russia right, so how have those launches done any insights into that?

**Rajesh Garg:** So couple of things, one is obviously that the whole European business is in much robust footing, where it is lot less about just PO after PO which is if you are purely export driven versus now you got relationships with customers, you have got on ground teams, so he is obviously established the team across Pan Europe and an example of your early win was obviously the MEDA for Dymista that we achieved which has been quite a good leverage of existing assets and then obviously now the establishing of the whole Respiratory team using sort of partly additional resources but a lot of them are double hatting running Europe as well as they are Respiratory focused people. So I think but clearly it's not so easy to ramp up and double quadruple a number

in a year but we have a three year strategy plan now which clearly reflects what should be the targets and they are quite well in line with what our overall strategy is.

**Sonal Gupta:** Any market share that you can highlight that you would have in the Russian market?

**Rajesh Garg:** We partner with TEVA out there.

**Sonal Gupta:** Thank you so much.

**Moderator:** Thank you. Next question is from the line of Chirag Dagli from Espirito Santo. Please go ahead.

**Chirag Dagli:** Thanks for taking my question. A few questions actually, firstly if you can clarify that there was a one-off in the last quarter and if that was so then you know the current quarter SG&A looks you know extremely high, so how we put that into perspective? I mean surely there cannot be such a huge swings Q-o-Q basis?

**Rajesh Garg:** Chirag, if you really look at it obviously in the last quarter as we have already explained one was obviously the R&D expenses going up, the other was obviously this is consolidated results because Metro was about 2.5 months last time, now it is about full three month and we have also added your Uganda to that, so obviously all these have added up together and that is why it looks a little high. That was one off in that Chirag.

**Chirag Dagli:** They were the one off in the last quarter. Now if I look at the difference between your standalone and consolidated obviously that would reflect the performance of your subsidiaries and it seems to me that your subsidiaries are actually higher margin making that you know the standalone numbers so I am not able to reconcile that it just you know subsidiaries that are you know resulting in this high SG&A and lower margins coming out, so if you can just run me through that I mean if my understanding fair enough?

**Rajesh Garg:** No I don't think so, our standalone is also doing well. If you really can see the consolidated number actually if you look at it behind your quarter ended PAT is about 260 for the standalone and your consolidated is about closer to about 290 or whatever it is so, I mean so the difference is not that substantial so I don't think while our subsidiaries have done reasonably well it is not like that something much difference. If you again look at a numbers the previous year it is about 530-odd you know that is more closer to the standalone kind of thing that was there last year so obviously year has gone by and a lot of work has been done so obviously those are reflective of especially the front end part of it, the R&D part of it and also the subsidiaries joining up so all have come up.

**Chirag Dagli:** I am just assuming that I am looking at in the standalone and the forex gain seems to be a part of the standalone so then on that basis the difference between standalone and consolidated seems to be extremely high and it just does not reconcile to me, so I mean even the EBITDA margin difference for subsidiaries it seems that EBITDA margin should have been 22% which makes the

standalone margins even lower so I mean something that entire upset (ph), you can just help me run through because I am getting a bit confused here?

**Rajesh Garg:** Chirag, I don't think there is much to get confused. Actually really speaking South Africa and Uganda's have done reasonably well. Uganda was just one month and it is not like substantial so really speaking these are as we said compared to the last quarter and the current quarter we said our R&D cost have gone up due to more filings and that is one of the key and also the metros in again being there for a half a month left it being done more, that is the key.

**Chirag Dagli:** Sir, as a percentage of sales your R&D cost would have gone up by 100 BPS Q-o-Q is that fair?

**Rajesh Garg:** So Chirag it would be, I don't think we can get into reconciling each and every number right now but my suggestion would be like tentative.

**Chirag Dagli:** Okay thanks and finally one question on Seretide (ph), you suggested that it could come up next year, is it next financial year or next calendar year?

**Rajesh Garg:** Next financial year.

**Chirag Dagli:** Thank you so much.

**Moderator:** Thank you. Next question is from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

**Anubhav Aggarwal:** Just one question on the personal cost there is 40 Crores increase sequentially, so I wanted to check that how do you account for ESOPs that you issue. This quarter you issued our 1.4 Million ESOPs how much of the ESOP accounting would have resulted in further cost increases this quarter?

**Anant Atal:** Obviously the ESOP part of it whatever is there for the current quarter that would have come into it, so I just do not have the exact number to give you.

**Anubhav Aggarwal:** I just wanted to check that how do you provision that, 1.4 million business on that the total amount of 50 Crores you will provision it like one by four a quarter about 12 Crores roughly?

**Anant Atal:** Exactly that will not happen that way. For each year will be different okay, and this is just the first quarter so obviously we are giving at par and we are having a price against that so obviously the differential is what will be the charge to the P&L.

**Anubhav Aggarwal:** Sorry Mani, I am still not clear that, I am just asking one thing that if whatever is the amount would you apportion let us say by just a quarter of that amount of the quarter or would you apportion total amount in one year?

- Anant Atal:** The quarter on the amount of the quarter.
- Anubhav Aggarwal:** Just a clarification, you said other expenses were higher because filing cost are high, that filing cost is all the parts R&D right?
- Anant Atal:** Yes that is part of the other expenses right.
- Anubhav Aggarwal:** So that filing cost comment is mainly about the R&D so it is essentially higher R&D and higher metro contribution for three months?
- Anant Atal:** Yes you got it.
- Anubhav Aggarwal:** Just one question on Xopenex, I am slightly confused so you got the approval now you are saying that you got it on your own was this one of the product which was returned from the partner, because if you have got a approval now you would have filed this at least two three years back, were you filing the products on your own even two three years back?
- Anant Atal:** We said that we do a combination of both, that we do file products on our own as well as some of the products that we have filed through partners and couple of products have come back from the partners.
- Anubhav Aggarwal:** So how many of your own products are pending now with the regulator out of 35?
- Rajesh Garg:** 17.
- Anubhav Aggarwal:** Isn't this number lower because you mentioned last time that 20 had been returned from the partner?
- Rajesh Garg:** 31 have been returned and transferred from our partner.
- Anubhav Aggarwal:** So part of them is already launched in the market?
- Rajesh Garg:** Yes.
- Anubhav Aggarwal:** Thank you very much.
- Moderator:** Ladies and gentleman we going to take a last question from the line of Bino Pathiparampil from IIFL. Please go ahead.
- Bino Pathiparampil:** Just one question, you have acquired the front end in South Africa and then now Croatia so how many more have you planned and how much money have you have earmarked for that over the next three years?

- Rajesh Garg:** I do not think it will be now, because it is all we have quite a few evaluations underway and it is very difficult to give an exact but I think to be honest growth where organic means is really the big opportunity for us and it will be complimented by inorganic growth and as Anant earlier eluded we have a very strict thinking on are we better owners, and by the way it is a small sentence but it actually is very meaningful because it forces us to really, really think what exactly is the values we are adding in terms of all across the entire value chain and that by the way does make many opportunities sort of no longer offings to us but we are acquisitive and we are evaluating, we have reasonable flex in our debt to equity so we are quite comfortable with the ability to do few some of our bolt down acquisitions but vis-à-vis the strict criteria.
- Bino Pathiparampil:** Let me put it this way, like in Croatia how many more markets are out there, are there like 10 more or are there like 25 more or are there 50 more acquisitions that can be done of your own front end?
- Rajesh Garg:** I think it is just a small number for those are out there but I will try and actually stay away giving the specific guidance.
- Bino Pathiparampil:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor to management for closing comments. Thank you.
- Rajesh Garg:** I think just to close out, we got a sign off from our Board on a three year plan, last year and we are pretty much on all parameters. We are actually ahead of the plan. So I would not go back to what I started with, but really the last 12 months has been about strengthening the foundation, across board, manufacturing, quality, R&D, general management and we believe now progressive into execution. So hopefully you will start seeing results of all the hard work and the small investments that we have started making. Thank you very much.
- Moderator:** Thank you Sir. On behalf of Kotak Securities that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.