



“Cipla Q1FY14 Earnings Conference Call”

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MODERATOR: MR. KRISHNA PRASAD – ANALYST, KOTAK SECURITIES

Moderator: Ladies and gentlemen good day and welcome to the Q1FY14 Earnings Conference Call of Cipla hosted by Kotak Securities. As a reminder for the duration of the conference, all participants' lines are in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Krishna Prasad.

Krishna Prasad: Good evening everyone. We have with us today Mr. Rajesh Garg who is the Global CFO and Mr. V. S. Mani. I now hand over the call to the management.

Rajesh Garg: I just joined in June and I am very pleased to be here and I welcome you to the first quarter earnings call. As Krishna said, I have Mr. Mani here as well with me. I hope you received the financials and performance highlights from our website, but I will just give you overview of the financials for the quarter and then I guess we will follow up with the Q&A session.

During the quarter, the company posted a growth of more than 25% in income from operations. Domestic sales grew by 17% while exports grew by 21%, rest of the growth coming from other operating income. Our operating margins for the quarter are at 27%, an increase of 25% over previous year and profit after tax at 475 crores which was higher by 18% on a year-on-year basis. I will now hand you over to Mr. Mani to talk on the other key numbers for the quarter.

V. S. Mani: Good evening everybody. Material cost has increased by about more than 3% on account of changes in the product mix in a sense in the last quarter for the previous years if you look at it, there was a sizable amount that we got from Escitalopram, so we do not have the benefit of that. So therefore the material cost looks little high. The increase in staff cost of about 94 crores is basically due to more of front-ending and senior talent hires and some amount to annual increments. Other expenditure has increased by about 60 crores for the quarter mainly on account of increase in sales promotion, travel expenses, professional charges etc. The tax rate for the quarter is in line with the average tax rate for the previous year, though for the current quarter it looks a little higher compared to the previous year for the same quarter. The capital expenditure for this quarter was about 100 crores. The capital expenditure for the current year including routine Capex is expected to be about 400 crores. Besides that, there could be some rollover to the previous year of about 150 to 200 crores. The major projects being currently executed are R&D facility at Vikhroli and API facility at Patalganga. As on 30th June, the outstanding amount of forward contracts is about 230 million which substantially covers the outstanding debtors. During the quarter, the company has gained about 12 crores on account of foreign exchange gains.

With this overview, I would like to leave the floor open for questions. Mr. Rajesh Garg and I 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. First question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Could you just give us a breakup of what has driven this other operating income so high in this quarter?
- V S Mani:** Basically we got a milestone payment from one of our parties Meda for Dymista some of the other geographies. So that was one of the key elements. I am not in a position to give you the full breakup of that amount due to confidential reason, but that played big role in the other operating markets.
- Sonal Gupta:** What I understand was Meda was \$5 million for the US right?
- V S Mani:** So this is for some other geographies.
- Sonal Gupta:** This includes Europe?
- V S Mani:** This will include some portion of Europe also.
- Sonal Gupta:** Any other items other than that?
- V S Mani:** That will be the regular items that you normally have the technical fees and others. So they form smaller portion of that.
- Sonal Gupta:** So you are saying this is primarily on account of Meda?
- V S Mani:** That is right.
- Sonal Gupta:** Another question on the India domestic business. We have seen on a high base of last year, last year you had a very strong growth in this quarter. We have still seen again a very reasonably good growth especially on account of the new DPCO 2013. So has this quarter not been impacted by DPCO and it is a very strong sequential growth. Could you just explain us to what is driving?
- V. S. Mani:** First of all I must say that it was a good quarter in spite of one is the DPCO effect and also the Maharashtra issue, there was stockiest and all those issues that we had in terms of supply disruption, but in spite of that we seem to had a good quarter largely driven by asthma, cardiovascular and antibiotics. I think all these three played a good role. While saying this, we would also like to caution that going forward obviously with DPCO and also the prevailing confusion over the 45-day deadline to revise medicine prices, there could be some impact in the coming quarters, but the current quarter obviously due to strong growth in the segment therapies that I told you, it has done quite well.

- Sonal Gupta:** What is the impact of DPCO 2013 for you?
- V. S. Mani:** I think it would be about 2-3% on our domestic business.
- Moderator:** Thank you. Next question is from the line of Prakash Aggarwal from CIMB. Please go ahead.
- Prakash Aggarwal:** First question is again taking this forward on the domestic side. So basically that 45-day currently is not applicable to you. So what is the current status and when do you think you would be able to supply the fresh batches with the revised prices?
- V. S. Mani:** As you know that there is injection is there, but as and when the thing comes in, obviously we should be ready with the fresh batches.
- Prakash Aggarwal:** Currently you are already pulling back the stock that you already supplied at higher prices and you are putting a new inventory at lower prices, is that process already happening?
- V. S. Mani:** No, obviously we will wait for the prices to be revised, then only will get started. So that 45-day deadline and the confusion that goes on, that's there.
- Prakash Aggarwal:** So your existing inventory at higher prices still at the inventory level?
- V. S. Mani:** That is right.
- Prakash Aggarwal:** Second is on this exports, if I exclude the Lexapro last year similar quarter, their growth seems to be very high. So any specific reason because South Africa starting from 15th July right, so it is not coming?
- V. S. Mani:** No, that is not coming. You should also understand that in the last year for the exports that included the Lexapro what we are saying. Taking that into account, still our export has grown by about 21%.
- Prakash Aggarwal:** I understand that and excluding Lexapro, it is showing a growth of more than 50-60%. Could you explain the reason for high growth?
- V. S. Mani:** Prakash lets be clear that the number of Lexapro was not given last time due to confidential reason, but I agree with you. In spite of that, there has been a good growth. The main reason has been that if you really understand that one has been obviously again out there the antiretroviral, anti-asthma, anti-allergic segments have done quite well and also if we were to go back, we had informed you that South Africa that is Medpro had won a good tender. So some of the businesses had gone towards that and in general overall across the geographies, there has been a good robust growth. That is what accounts for this growth.
- Prakash Aggarwal:** So does this good blockbuster first quarter results in change of guidance?

- V. S. Mani:** Well, it has been quite good, but then if you were to really look at the guidance, obviously it will be still a little muted. So in terms of guidance, we look at the full year being at about 14-15% growth for sales, so we do not really change the guidance in a very big way.
- Prakash Aggarwal:** Last question here on as you said there is huge growth in the antiretrovirals. What we understood was antiretroviral is a lower margin business, but you still done around 22% margin excluding the other income. So could you explain that?
- V. S. Mani:** Antiretroviral is one part of it, but if you also look at it the asthma segment also did very well and the anti-allergic segment also has done well. So obviously those are little high margin segments. That has contributed to the bottomline.
- Prakash Aggarwal:** This is India business you are saying?
- V. S. Mani:** No, I am talking of export business right now.
- Moderator:** Thank you. Next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Just continuing the previous question. Sir you mentioned that South Africa is one of the categories in the export formulations which grew well, can you just slightly explain other than South Africa when you say it was broad based across regions. If I see from the annual report, Europe, Africa and Middle East were very weak last year in terms of YOY growth. Do you see outside South Africa also you had a growth or it was only limited to Africa?
- V. S. Mani:** We had a good growth in Europe despite the economic situation and the Middle East also showed a robust growth.
- Anubhav Agarwal:** Would you say these had double digit growth when you say robust growth Europe and Middle East?
- V. S. Mani:** Yes, double digit growth.
- Anubhav Agarwal:** And just had a question on your other expenses. There seems to be very volatile quarter wise. For example if I see that although year-on-year your other expenses are up roughly by 60 crores as you mentioned, but if you see sequentially, your other expenses have done, your sales are up. What explains such a high seasonality in other expenses?
- V. S. Mani:** Sometime the other expenses also include the write-down on the debtors and the stuff like that and also it includes in terms of professional charges and stuff like that. So when you take all that into consideration, that is where the volatility comes in.

Anubhav Agarwal: What would you say the quarter other expenses are representative of the yearly run rate or they are not, what you have reported this quarter?

V. S. Mani: They are largely representative. Except that what we have already given a guidance which I have already told you that going forward it is possible that we may invest in our pipeline for the future. It is possible that there could be almost 1% of the EBITDA or whatever we could be putting into our pipeline for R&D.

Anubhav Agarwal: And last question what was R&D expense this quarter?

V. S. Mani: This quarter it was about 3%.

Anubhav Agarwal: Can you give absolute number because sales which include other income from Meda as well?

V. S. Mani: Basically you should take about 2400 crores, 3%, you will get about 70 crores.

Moderator: Thank you. We are going to take the next question from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: On the Forex side, can you give us color on how much currency would have benefited in terms of margins and the \$230 million forward contracts, what rate would they be last year?

V. S. Mani: One is obviously if you look at it currently while in the last quarter there has been not such a big effect, but going forward obviously rupee remains at the same rate for the export business do get a benefit of about 12-13% in terms of that, but on an overall basis after taking imports etc. you would get about 3-4% benefit in your margins and this 230 million what we are saying is booked at an average rate of about 58 plus.

Girish Bakhru: And on the exports, I wanted some more sense from the annual report also I just got some color, you have approvals for fluticasone inhalers in many European markets. Can you give a color if many markets have already seen the launch of mono-therapy inhalers and what would be the share of inhalers in exports currently?

V. S. Mani: Let me put it this way. We have got the approvals for this fluticasone what you said very rightly, but the products are yet to be launched. So if you are looking for a big ticket number, that will come later.

Girish Bakhru: When you say asthma is doing well in exports, you are talking about ex-regulated markets recently right?

V. S. Mani: Exactly yes. Right now when you ask for inhalers, as of now we have received approval for about 5 products in certain markets and two are under process for various regulatory reasons. Three are under the various stages of development. Obviously we expect that in one or two

years this would get commercialized. The big one what you are expecting that will take a little time, one to two years.

Girish Bakhru: And just lastly on the inhaler side again, you said the DPCO impact probably may be still out there, does the DPCO impact, any big ticket inhalers in India which you sell?

V. S. Mani: Not that much.

Girish Bakhru: So no single inhaler comes under pricing control, is it?

V. S. Mani: Whatever comes, they are not so much impacted. If you recollect, Salbutamol already anyway under control.

Girish Bakhru: And your pricing would not be that high you are saying from the ceiling price that might come to?

Moderator: Thank you. Next question from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.

Ranjit Kapadia: My question is on the outlook on the domestic market, what do you feel after this DPCO. How the company views for their own products, how they are going to shape up in the market?

V. S. Mani: As we said earlier also like there could be an impact of about 2-3% on the overall sales and growth.

Ranjit Kapadia: Do you feel that this will be partly offset by increasing volumes, do you expect the volume..

V. S. Mani: Absolutely, There is a good possibility that over the years obviously, the volume growth will drive this loss of revenue.

Moderator: Thank you. Next question from the line of Monica Joshi from Avendus Securities. Please go ahead.

Monica Joshi: Just two questions. One is your 14-15% growth target is inclusive of Medpro?

V. S. Mani: No, it is not including Medpro. Medpro will be outside that.

Monica Joshi: And secondly you said 2-3% is your domestic impact from NLEM, so if things were to remain without NLEM and you adjust for 2-3%, what is the realistic growth number for you for FY14 in India?

V. S. Mani: In India if you really take it, all these years we have grown at about 15-16%. So obviously that could well have been on course.

- Monica Joshi:** So when we project the numbers as 14-15% minus 2-3% is that how?
- V. S. Mani:** In terms of 14-15, Monica it meant that it includes everything. So it included the fact that our exports have done well in this quarter. It included the other operating income that we got, so all put together.
- Moderator:** Thank you. Next question is from the line of Rahul Sharma from Karvy Stock Broking. Please go ahead.
- Rahul Sharma:** Mani just wanted to know in domestic which segments have done particularly well or is it the generics space which is driven the growth in the quarter?
- V S Mani:** No Rahul, the branded generics did 17%. So as I said earlier in the domestic space, the antiasthma, cardiac, and also the antibiotics, that is, acute segment also did well.
- Rahul Sharma:** Antiasthma and?
- V. S. Mani:** Cardiovascular and the antibiotics and anti-infective.
- Rahul Sharma:** Another thing was our interest costs have shot up, is this good run rate to look at or is there a Forex?
- V. S. Mani:** There is no forex thing Rahul, obviously our net debt position is about 700 crores. So we will have about on a yearly basis may be roughly about 70-80 crores as interest expense.
- Rahul Sharma:** Because you have already done around 40 crores of interest payment in the current quarter.
- V. S. Mani:** And obviously there is a net position. Against that if you look at it, the other income also looks high in terms of the dividend from the mutual fund, etc.
- Moderator:** Thank you. Next question is from the line of Manoj Garg from Bank of America. Please go ahead.
- Manoj Garg:** Just wanted to understand Mr. Mani like you said that the other operating income also includes milestone payment from Meda. I understand there is some royalty payment also which is as a part of some percentage on the sales. So out of this, what income which we got from the Meda. What is the sustainable income which probably will see quarter-on-quarter basis?
- V S Mani:** If you look at it as far as this is concerned, it is more in terms of the milestone. It is a one-time one, but if you really look at the sales from Dymista during the first quarter other than this other operating income, the sales are about 6 million and also it is an NDA, it is not an ANDA. So obviously depends upon how Meda will develop this product.

- Manoj Garg:** And the 6 million includes supply to US and other markets also?
- V S Mani:** US and Europe as of now. Largely US, small of Europe.
- Manoj Garg:** The second thing like in the domestic markets, is it fair to say that in the first quarter we have not seen any impact in the pricing policy and probably the impact will come as we move forward?
- V S Mani:** The impact will come as we move forward, but one you must be cognizant on one fact that in the first quarter obviously there were lot of issues in terms of Maharashtra, supply was disrupted, but we managed to still put together a decent quarter.
- Manoj Garg:** And would you like to give any outlook for the domestic business in terms of the overall growth for the year as a whole?
- Rajesh Garg:** I think as I said there would be an impact of about 2-3% and historically we have grown at about 15-16%. So I think that answers the question.
- Moderator:** Thank you. We are going to take the follow-up question from the line of Prakash Aggarwal from CIMB. Please go ahead.
- Prakash Aggarwal:** Just wanted a broader picture on how we plan to roll over inhaler segment in the Europe and US because we were just looking at Mylan presentation which talks about second half fiscal 15 roll out for their combination inhalers. Question is to the Group CFO, can you highlight something?
- V S Mani:** Prakash I had explained sometime back. We have about 10 inhaler products that we are working on for the Europeans, five we have got approvals, but those are not the big ones, two are various regulatory agencies were waiting for approval. Three are under various stages of development. As you would like to know the bigger one, Salmeterol, fluticasone the big one that will take about 1-2 years to get commercialized in Europe. US will be the next after that.
- Prakash Aggarwal:** So we are also on target for Fiscal '15 second half launch?
- V S Mani:** Let us hope we reach there.
- Prakash Aggarwal:** Understood and second question again on the debt end. So whatever the cash pile that we have, we largely consumed for the South Africa deal right?
- V S Mani:** Exactly.
- Prakash Aggarwal:** Now we are in a net debt position of 700 crores?

- V S Mani:** That is basically against our working capital.
- Prakash Aggarwal:** But there is no cash and so we should not expect interest income going forward?
- V S Mani:** Little bit will be there. Obviously some cash will be there against which we will receive some dividends.
- Prakash Aggarwal:** And tax rate likely to be similar levels for the whole year?
- V S Mani:** We hope it will be about 24%.
- Moderator:** Thank you. We are going to take a next call of question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** I just wanted to clarify you mentioned that because of the FX moves from next quarter, you could potentially see a benefit of about 3-4% on margins, is that correct?
- V S Mani:** About 3%, that is a good possibility, but then rupee has to remain where it is.
- Sonal Gupta:** So in that case, your margins should expand significantly.
- V S Mani:** Definitely, to some extent.
- Sonal Gupta:** In terms of the overall run rate of R&D, where do you in 4-5% that way you see it?
- V S Mani:** That is where we see it, 4-5% is what we see it. We will be there, that's close to 4% most of the year, we will be there.
- Rajesh Garg:** But I must add on the margins that the impact of forex is not going to sustain because the competitive pressures will come in and lot of pricing pressure from our side will also evaporates. So I do not think it will be ever that the impact will be sustained.
- Sonal Gupta:** And just in terms of your US strategy, could you just tell us exactly where you are. I understand you have set up a team, etc., so when do you start selling products and how many ANDAs are you planning to file this year?
- V S Mani:** To put it, so far we have filed about 6 ANDAs last year. Current year, we are working on ANDAs. We have not filed any of our own as of now. As you would recollect, we have got some ANDAs about 20 from our partners and we have about 76 already there in the market through various partners. So we are building up front-ending there. We have a head on US and we are taking people on board. I think may be in the course of the next one year, you would see a clear frontend out there which would deal may be directly the distributors there.

- Sonal Gupta:** What is the strategy, do you plan to do some acquisition to beef up the portfolio because given that your pipeline is very small right now?
- V S Mani:** No, pipeline is not exactly very small. If you really look at the number of filings through the partner, they are quite large and also the other thing is we are working on our own products. So I think these two together should help us to sort off and once we start directly in the market, it should help us to get decent sales out there. Acquisition is not something that at the moment we are really looking at in the US, but we will take it as the opportunity comes.
- Sonal Gupta:** Just to clarify this, 20 ANDAs are basically which you had filed for partners and have reverted back to you, is that the one?
- V S Mani:** That is right.
- Sonal Gupta:** And 76 are commercialized for partners, is that how you look at?
- V S Mani:** About 76 have been filed through various partners. Of which, about 47 have been commercialized.
- Moderator:** Thank you. Next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.
- Sachin Kasera:** Just a follow up question on the margin front. You mentioned that the R&D for the full year would be in the range of 4-5% and for the first quarter it was around 3% and you also mentioned that because of the FOREX you could see a 2-3% margin expansion. So this 2-3% margin expansion is after factoring in the higher expenditure of our R&D for the remaining 3 quarters?
- V S Mani:** That is one part and as Mr. Garg rightly explained that in 2-3% whatever you may get additional out of exports, you could probably see some pickup in terms of the other costs going up and also some of the export parties asking for some benefits. So obviously we will have to watch and wait and see how much will really come to the bottom-line.
- Sachin Kasera:** And secondly if we pickup in exports, has the utilization at Indore has gone up in the last quarter?
- V S Mani:** Last quarter, Indore has been quite good. Basically 190 crores in Indore roughly does about 18% of our export formulation.
- Sachin Kasera:** And in terms of utilization, what would that impact be roughly?

- V S Mani:** Again utilization, we have various facilities out there. We have both tablet-capsules as well as liquids etc. So tablet-capsules are more utilized and the other dosages are little less. So on an overall basis it would be about 50-60% of the utilization.
- Sachin Kasera:** And what was the figure last year?
- V S Mani:** Last year it was little lower in this quarter and on an overall basis also we did about 600 crores last year.
- Sachin Tasrsera:** On exports, can you quantify growth in dollar terms?
- V S Mani:** You are talking of current quarter.
- Sachin Kasera:** Yes current quarter.
- V S Mani:** In this quarter, there is not so much of advantage in terms of the currency movement, more or less 20%, it is close to that.
- Moderator:** Thank you. Next question is from the line of Aditya Khemka from Nomura. Please go ahead.
- Aditya Khemka:** Mani, first of all you mentioned some FOREX gain of Rs. 12 crores, fair to assume that you are sitting in other income below EBITDA?
- V S Mani:** That is right.
- Aditya Khemka:** And in terms of the inventory that you have in the domestic market, so given that we are in litigation with NTP regarding the pricing thing and the 45-day window. So fair to assume that the inventory right now you have in the channel is at higher price right as compared to NTP in notified price?
- V S Mani:** To some extent, yes.
- Aditya Khemka:** And do you see a reduction or an increase in stock days of your inventory in the channel?
- V S Mani:** It has not gone up significantly, but seeing the size of the operation that we run, obviously it is not reduced that much.
- Aditya Khemka:** How many ANDAs are pending from your end including partnering ANDAs?
- V S Mani:** 6 we have actually filed last year and apart from that, there are about 27 under registrations.
- Aditya Khemka:** So total 33 ANDAs pending in the US are waiting approvals.
- V S Mani:** Exactly.

- Aditya Khemka:** What was your USD realization in 1Q-FY14, how much did we realize in terms of INR per USD?
- V S Mani:** Per USD, we would have got about 56.
- Moderator:** Thank you. We are going to take the next question is from the line of Deepak Karthikeyan from Axis Capital. Please go ahead.
- Deepak Karthikeyan:** You mentioned that \$6 million of sales were reported on Dymista this quarter. Just wanted to check whether that is included in other operating income?
- V S Mani:** No, that is part of sales.
- Deepak Karthikeyan:** So the other operating income that is roughly 180 crores this quarter and higher than 140 odd crores which is your average of 40 crores is your average run rate quarterly. So that additional amount is largely because of the milestone income?
- Rajesh Garg:** Big portion of it, yes.
- Moderator:** Thank you. We are going to take a follow up question from the line of Karthik Mehta from ICICI Securities. Please go ahead.
- Karthik Mehta:** Is there any update on the guidance that you can actually give, post the acquisition of actually Meda, we have entirely acquired that. So from which quarter should we see that being in our numbers?
- V S Mani:** We should see from the next quarter, you are talking of Medpro right?
- Karthik Mehta:** Yes.
- V S Mani:** We have taken it as of 15th July. So next quarter there will be 2.5 months of Medpro.
- Karthik Mehta:** What is the source of overall funding that will be using? Will it be the long-term debt because there was some cash also in the books of Medpro?
- V S Mani:** No Medpro, you are talking of Cipla when we acquired. We used our own funds to buy the company.
- Karthik Mehta:** Can you just elaborate on the overall funding on the way in which we will use our cash as well as anything on the debt side?
- V S Mani:** That is what I said. Whatever cash we had largely in our annual report if you look at FY13, so that is what has been used to buy this company and as of today for our working capital, we have a small amount of debt.

- Moderator:** Thank you. Next question is from the line of Nita Shetty from HDFC Securities. Please go ahead.
- Nita Shetty:** Just one question on the employee cost. This quarter I understand there are some increments and stuff in the number, but where do you see this largely for the US. Will it be around 14% to sales or will it be slightly lower?
- V S Mani:** It would be closer to about 13 odd percent.
- Nita Shetty:** In spite of the front end setup that we are doing in the US and even Medpro getting consolidated, will it still remain that?
- V S Mani:** Yes because lot of the senior hires, some of them have happened. So it is at about 12.5. So when we say 13 for the full year, obviously it takes into account number of more hires.
- Moderator:** Thank you. We are going to take the next question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.
- Dhiresh Pathak:** On Europe, you said you have 5 approved inhalers. How many have been launched and what percentage of exports do they contribute currently?
- V S Mani:** They are not very significant. They are 5 we have launched. It is a different geography. There is not total EU kind of a thing. So on an overall basis, they would be pretty small.
- Dhiresh Pathak:** Not even double digit of the exports would be inhalers?
- V S Mani:** What you are saying in Europe?
- Dhiresh Pathak:** No, I am saying of your exports, what percentage of sales is through inhalers and how much of that has contributed through Europe?
- V S Mani:** If you talking about the whole world then obviously it will be in double digit, but if you are talking only of Europe and these specific inhalers, then it would be a small portion of that.
- Dhiresh Pathak:** And the margins of other operating income that you are saying is without any FOREX benefit this quarter?
- V S Mani:** Very nominal benefit that is all.
- Dhiresh Pathak:** Just to understand your billings in Africa, Middle East and other geographies outside of US and Europe, they would be in which currency?
- V S Mani:** Dollars.

- Dhires Pathak:** If their local currency is also depreciated assuming similar to rupee, then do you reset the dollar price or you just keep the dollar price same?
- V S Mani:** As of now they are the same, but going forward obviously there could be some pressures from them. So that is why we are seeing major portion of the benefit that you see in rupee may not entirely pass onto you.
- Moderator:** Thank you. Next question from the line of Arvind Bothra from Religare. Please go ahead.
- Arvind Bothra:** Two questions from my side. Number one with the recent consolidation in the US, have you seen any structural change in the partnership model that you have been following, I am just referring to the number of partners being lower, can you just give us numerical idea as to how your number of partners progress over the year?
- V S Mani:** In a sense we have a decent number of partners even now in the US. So in that sense, model of being with partners has not changed much. We still have about 22 partners in the US. Obviously there have been some business combination in terms of IVAX etc. getting taken over, but obviously being proactive going forward that is why we are looking at having front end and working towards that.
- Arvind Bothra:** Second question now that Medpro is under our arm, just wanted to understand your outlook for Middle East and North Africa markets, are you very bullish on that or can we look at that market as incrementally more important to Cipla, just wanted to understand the strategy perspective?
- V S Mani:** Both are different markets. Actually Medpro does more of South Africa, but if you look at basically we are talking of Algeria or Morocco or anything else, those are separate markets and we have been quite strong in those markets.
- Arvind Bothra:** Nothing due to Medpro acquisition is going to change, it is going to be business as usual just that we will gain from the consolidation and incremental margins that Medpro was making right?
- V S Mani:** Obviously, but Medpro again is very strong in South Africa and possibly you could extent that benefit into some of the other South African nations like Angola, Mozambique those are not markets that we have tapped big time. So we could do a lot of work on those markets.
- Rajesh Garg:** All the Sub-Saharan call it Africa that gets us a better opportunity than before, but Northern Africa it remains unaffected due to the Medpro acquisition.
- Arvind Bohra:** Final question on my end on the Capex front, you mentioned that Indore facilities roughly running at around 50-60% utilization, do you foresee any large Capex on the formulation side over the next 2-3 years?

- V S Mani:** No, we do not see major ones. We do not see. What we said was the R&D facilities, we do not see major big time projects as such coming into the formulation.
- Arvind Bohra:** So your annual Capex would come down from 700-750 crores to 400-500 crores going forward right?
- V S Mani:** Exactly that is what I said in the opening comments
- Moderator:** Thank you. Next question from the line of Chirag Talati from Espirito Santo. Please go ahead.
- Chirag Talati:** Couple of questions. Firstly when you say you got 20 ANDAs returned from partners, are those pending approvals or most of those were already in the market and have now been returned back?
- V S Mani:** They were in the market and they are returned-back.
- Chirag Talati:** So there is no pending approvals that are being written-back by the partners?
- V S Mani:** So it becomes like a duplicate with the partners, yes.
- Chirag Talati:** And secondly on when we talk about inhalers not being commercialized in every market, what stopping you from getting your partners, is it that getting partners in each territory because of price reference or what is happening?
- V S Mani:** Chirag it is not question of partners. It is more a question of getting approvals and it is not that easy getting these approvals in Europe.
- Chirag Talati:** But I am talking about the current products that you have got approvals for.
- V S Mani:** We have partners. We are selling through them, but obviously it depends on the size of the market for that particular product. So some of them, may be if they are single molecule inhalers, so they may not have that bigger market out there.
- Moderator:** Thank you. Next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Mani just wanted to confirm you said that two inhalers which are waiting approval with the European regulator and this includes the combination?
- V S Mani:** I did not mean that this combination is under approval. I said two other inhalers are under process of various regulatory approvals. The combination, still some work is going on.
- Sameer Baisiwala:** But you did say that they could be expected to get launch in 1 to 2 years.

- V S Mani:** That is what our strong belief is about 2 years. We have a strong ground presence lot of work has been done we do believe that.
- Sameer Baisiwala:** That cannot be one year because.
- V S Mani:** That is what I said two years.
- Sameer Baisiwala:** And when you say combination, you are working on both MDI and DPI?
- V S Mani:** That is right.
- Sameer Baisiwala:** The other question that I have is on the US front end. How should we think about the ramp up as we go forward. Do these 20 products which have come back to us, do they have a very big addressable market or it is going to be slow gradual ramp up?
- V S Mani:** It is slow gradual ramp up Sameer. As you would very likely know that some of the big ones were there with partners already. So obviously when we say ramp up, we mean that obviously it helps us to get front end gets us to be on ground presence and all that but these products are not that big.
- Sameer Baisiwala:** And one final question, you had said on earlier call that you may get 1 to 2 niche approvals for the US market which could be little larger size than the others. Where are we on those two products?
- V S Mani:** I think as we said earlier that it is not every year that an Escitalopram comes in and may be in a year or two down the line we would see those.
- Moderator:** Thank you. We are going to take the next followup question from the line of Sachin Kasera from Lucky Investment Manager. Please go ahead.
- Sachin Kasera:** Just two follow-up questions. One, does this 15% guidance include the consolidation for Medpro?
- V S Mani:** No, it does not include.
- Sachin Kasera:** And second was if you could give us some sense on how the working capital has moved for the quarter vis-à-vis from March-June quarter are they same?
- V S Mani:** The outstanding days are little lower. They are at about 76 days and the inventory has remained at similar levels.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question. I would now like to hand over the floor to Mr. Krishna Prasad for closing comments.

Krishna Prasad: Thanks everyone for on the call. I would just hand over the call now to the management for the closing comments.

V S Mani: We had a reasonably good quarter, hoping the year goes along the same way. Thanks everybody.

Moderator: Thank you. On behalf of Kotak Securities that concludes this conference call. Thank you for joining us.