



“Cipla Earnings Conference Call”

May 10, 2012



MODERATORS **MR. V.S. MANI – CFO**
MR. AJAY LUHARUKA

Moderator: Ladies and gentlemen good day and welcome to the Cipla Q4FY12 results conference call hosted by Kotak Institutional Equities. A gentle reminder to all the participants, the conference duration time will 30 minutes. 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 the 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 the Cipla Management. Thank you and over to you.

Ajay Luharuka Thank you Terrence. Good evening everybody, this is Ajay Luharuka. Welcome to the fourth quarter results of the Financial Year 11-12. I also have with us on the call, Mr. V. S. Mani, our chief financial officer. I would like to give you all an overview of the fourth quarter results and which can be followed by a question and answer session.

The total income from operations for the Financial Year 2011-12, crossed Rs. 7000 crores and posted a growth of more than 10%. Domestic revenues for the year grew by 14% and crossed 3200 crores while export revenues at Rs 3700 crores grew by 10%. The operating margins grew by 20% and crossed Rs. 1500 crores. Rationalization of products and markets in particular ARVs have resulted in increased operating margins. The profit after tax for the full year crossed Rs. 1100 crores posting a growth of 17%.

Coming to the quarter – For the fourth quarter, the total income from operations was about 1900 crores with a growth of more than 12%, while operating margins at 400 crores grew by more than 37% and profit after tax at Rs. 292 crores grew by more than 36%. Material cost for the quarter has decreased by more than 7% which is mainly due to changes in product mix namely lower proportion of antiretrovirals and higher contribution of antiasthma as well as antimalarial segments coupled with increased realizations. The total capital expenditure for the Financial Year 11-12 was about 480 crores and we expect for the next year about 400-500 crores considering the ongoing expansion of API facilities in Patalganga, Kurkumbh, and Bangalore.

On the foreign exchange front as of 31st March, 2012, our total outstanding contract is about \$215 million and the company continues to follow the policy of billing on a net basis.

With this overview, I would like to leave the floor open for questions. Mr. Mani and myself are available to answer any questions you may have. Thank you.

Moderator Thank you. We will now begin with the question and answer session. We have the first question from the line of Yogesh Mundata from ICICI securities, please go ahead.

Chirag Yeah hi, this is Chirag here, sir what is the mix of ARVs in our export formulation space?

Ajay Luharuka Chirag is this for the quarter?

Chirag Yeah for the quarter.

Ajay Luharuka For the quarter, it will be roughly about 15 to 20% on the exports front.

Chirag You mentioned inhalers as being a big contributor to your growth, if this exports largely or domestic as well?

Ajay Luharuka It's both export as well as domestic?

Chirag The other flexing thing is that why is that currency appreciation actually not helped us. US dollar appreciation has not helped us. Any particular reason in terms of we are having booked contract at lower levels or because in the past, we have seen currency benefit us.

Ajay Luharuka Yeah Chirag, lets clarify you are talking about currency appreciation or depreciation?

Chirag No sir US dollar appreciation.

Ajay Luharuka US dollar appreciation, see its like a Chirag if you see for the quarter, there is an exchange gain of about 18 crores already accounted and overall Cipla would benefit by a currency depreciation, but that will be a partly offset by the import content.

Chirag Okay, so 18 crores is our realized gain?

Ajay Luharuka No it will be a mix of both realized as well as unrealized.

Chirag Okay. Sir thank you so much. I am done.

Ajay Luharuka Terence can you take the next call please.

Moderator Yes we can sir thank you. We have the next question from the line of Anubhav Agarwal from Credit Suisse, please go ahead.

Ajit Yeah Ajit here, I had one question about Dymista just want to a clarification, was Cipla involved in development of product as well or is it just relationship limited to only manufacturing?

Ajay Luharuka Yes Cipla will be involved in the manufacturing as well as the development part of the Dymista.

Ajit Is Cipla the exclusive supplier to the US market with Meda for this product?

- Ajay Luharuka** In fact we have tie-up with Meda for US as well as some of the other markets as well.
- Ajit** But in the US, is Meda does not have the right to choose anyone else if they want to?
- Ajay Luharuka** Yeah right now we are the only supplier.
- Ajit** Does that mean that your agreement does not allow them or only right now you are the only supplier, I have a confusion here.
- V. S. Mani** Yeah we are the only suppliers.
- Ajit** Okay and just one, have you given the FY13 guidance on the export front, can you guide?
- Ajay Luharuka** On the top-line, we have given guidance for about 10% and on the bottom-line the profits are expected to be as per the current trend.
- Ajit** Just last question, on the inhaler side, you always mentioned you have four inhalers in Europe which are launched, one is Salbutamol, Salmeterol, Budesonide, which is the fourth one, I missed out the fourth one?
- Ajay Luharuka** See there is a product called Beclomethasone and the others are the combination product.
- Ajit** Got it. Okay thank you.
- Ajay Luharuka** Yeah.
- Moderator** Thank you. We have the next question from the line of Girish Bhakru from HSBC, please go ahead.
- Girish Bhakru** Yeah this 18 crore gain is in the other income all of it?
- Ajay Luharuka** Yeah it will be accounted as other income as per the stock exchange format.
- Girish Bhakru** What is leading to higher other operating income?
- Ajay Luharuka** See other operating income consist of export incentives.
- Girish Bhakru** Some large upside which is about 12 crores or 13 crores is because of higher incentives?
- Ajay Luharuka** Yeah export incentives if you see the major component in other incomes is export incentives and technical fees is also part of other income as well as some of the miscellaneous income like sales and other processing charges. But the bulk part is export incentives.

- Girish Bhakru** Okay and on the inhalers like you said this quarter has higher share, is it because essentially of this seasonal effect that inhalers would be higher in this quarter or is there any other reason?
- Ajay Luharuka** Yeah the quarter-on-quarter, there would be fluctuations. So there can be some seasonal impact as well.
- V. S. Mani** Girish somewhere the rationalization of product when we say that they are focusing the little less than antiretroviral, so it will obviously give the bandwidth to look more at other products where we are more strong and which are more profitable.
- Girish Bhakru** Right. And how much of inhalers say would be there in the exports formulations as a percentage?
- Ajay Luharuka** It will be roughly about 15%.
- Girish Bhakru** And this is basically all the four products that have been launched single inhalers in some of the market right?
- Ajay Luharuka** That is overall antiasthma segment in exports including all products in all markets.
- Girish Bhakru** Right okay, thanks I will join back the queue.
- Ajay Luharuka** Yeah.
- Moderator** Thank you, we have the next question from the line of Ranjit Kapadia from Centrum, please go ahead.
- Ranjit Kapadia** Heartily congratulation for good set of numbers. My question relates to the price reduction of three anticancer products which we have taken last week, what will be the effect of this in sales and profitably that we can quantify?
- V. S. Mani** Ranjit this is Mani here.
- Ranjit Kapadia** Yeah good evening sir.
- V. S. Mani** Good evening. This whole thing has been done not really looking at what kind of profitability impact us or whatever it is. We have good state-of-the-art facilities for our anticancer facilities and while today and amount may not be substantial. It may not impact us much, but on a longer run basis, we are having a lot of focus on oncology products. So looking at that I mean this is something on which will concentrate a lot, but as of today I mean answer to your question is it will not impact us too much.
- Ranjit Kapadia** Okay and what is the sales of anticancer segment approximately?

- Ajay Luharuka** It would be less than 1% of the domestic turnover.
- Ranjit Kapadia** Less than 1%. Okay thank you and all the best.
- Ajay Luharuka** Thank you.
- Moderator** Thank you. We have the next question from the line of Prakash Agarwal from RBS, please go ahead.
- Prakash Agarwal** Yeah good evening sir. Sir on your guidance of being very conservative 10% especially when we see domestic formulation going ahead 15-16% plus export formulation has revised to now 15%, can you just throw light it simply does not add up why such a conservative guidance?
- V. S. Mani** See Prakash on a year-on-year basis really look at our total this have grown by about 11%, so looking at that we have given a little toned down kind of thing. Well yes it is possible it maybe slightly have, but if you ask us the guidance we would tell you about 10%.
- Prakash Agarwal** Okay, but I mean the recovery in export formulation that we have seen, you are saying it is due to which reasons and whether they are sustainable?
- V. S. Mani** Yeah definitely, I mean I the sense, since there has been a lot of focus in terms of rationalization. If you look at it last full year, we have gone on this thing of trying to look at rationalization at somewhere where we can actually focus more and sort of increase our profitability. So in a way the base effect has been taken care of. Looking forward, the 10% growth should at least be there.
- Prakash Agarwal** Sir but I mean in the last few quarter, you have done the rationalization and hence the export formulation growth was not around 10% or below but this quarter, I mean the growth has been very good around 15%. Just wanted to know why?
- V. S. Mani** See Prakash another thing is that last year we might have got little bit benefit of at least the currency depreciation okay and we gave you a 10%, we are not looking at any currency. We are looking at standalone and we are giving it to you. We are not bringing any other factors into it.
- Prakash Agarwal** Okay and on the margin front I mean what kind of margins we are looking ahead. I mean this quarter obviously margins has blip a little bit compared to the last three quarters. Do we see better margins going forward as in the last call the long term margin aiming for around 22 to 24%.
- V. S. Mani** Yeah definitely, I mean if you look at the last three quarter, we have been somewhere between 22 to 24%. So we expect to be in that range.
- Prakash Agarwal** Okay, but any particular reason for margin drop this quarter?

- V. S. Mani** Nothing that much, you know it just a percentage here and there. I mean it's not too much. It is 22 last time, we did 20 now.
- Prakash Agarwal** And lastly on update on the inhalers side, any new approvals or any facility approvals, can you update there?
- Ajay Luharuka** Prakash on the inhaler side, the approvals are in process. It is still under review by the regulatory authorities in Europe, so the timelines are the same as we guided last time. So we would expect something in the next year. So that is as per what is planned currently.
- Prakash Agarwal** Okay I will join back the queue, thanks
- Ajay Luharuka** Thank you.
- Moderator** We have the next question from the line Sonal Gupta from UBS, please go ahead.
- Sonal Gupta** Thanks for taking my question. First question is on domestic side. What's the sort of sales force do you have and how much addition in the sales force have you done this year?
- V. S. Mani** We have a sales force of about 7000.
- Sonal Gupta** Okay. How many people have you added?
- V. S. Mani** Today about 500 and we don't expect to add much in the next year.
- Sonal Gupta** Okay and just a question on your Africa business, I mean how many partners do you have in Africa?
- Ajay Luharuka** Africa business will be split country-wise and it will be again mix of tender business as well as private market. So in each of the countries we'll have tie-up with a partner minimum.
- Sonal Gupta** Okay and Medpro is not your partner for whole of Africa
- V. S. Mani** No it is basically South Africa, but rest of the Africa we have partners in each country.
- Sonal Gupta** Okay and how many ANDAs we now have in the US which are sort of pending approval?
- Ajay Luharuka** Through our partners, we would have about 24 ANDAs currently.
- Sonal Gupta** 24.
- Ajay Luharuka** Sorry, we have about 24 partners in the US market and about 79 ANDAs are approved and the rest are under registration.

Sonal Gupta So 29 are approved?

Ajay Luharuka 79 and we will have about 7 to 8 PEPFAR ANDAs.

Sonal Gupta Okay and how many of these have been commercialized?

Ajay Luharuka Of the total ANDAs 49 have been commercialized so far.

Sonal Gupta And sir last question on, does this quarter have any contribution on account of like Lexapro supply?

Ajay Luharuka We had started sales of Escitalopram in the last quarter so there was a small portion of Escitalopram in the last quarter.

Sonal Gupta And this quarter as well.

V. S. Mani No last quarter it was not there. We are talking of this quarter.

Sonal Gupta Okay so this quarter and that would be APIs right or formulations?

Ajay Luharuka Formulation.

Sonal Gupta Formulations. Could you quantify that?

Ajay Luharuka No we don't quantify.

Sonal Gupta Okay thank you so much.

Management Thank you.

Moderator Thank we have the next question from the line of Sameer Baisiwala from Morgan Stanley, please go ahead.

Sameer Baisiwala Good evening every one. Just clarification on your fiscal year '13 guidance, for a bottom-line you said that it would in line with the current trend and the current trend if I translate this into fiscal '12 over fiscal '11 growth, it is about 17%. Is that what you alluding to?

V. S. Mani Well it would be somewhere in the range of 10 to 15%.

Sameer Baisiwala But that is not the current trend?

- V. S. Mani** Current trend if you look at last year, we did about 10% growth in sales and 17% in bottom-line. So we are saying that next year also we are looking at about 10% growth in sales and we are looking at about anywhere between 10 to 15% growth in bottom-line.
- Sameer Baisiwala** Alright, the second question just clarification again on Lexapro, you said you did small booking in the March quarter, is what you said?
- Ajay Luharuka** A few shipments went across, yeah.
- Sameer Baisiwala** Okay and its going to ramp up in the current quarter which is a June quarter?
- Ajay Luharuka** Yeah.
- Sameer Baisiwala** Okay and on Dymista, could you tell me is it cost plus basis or you got a revenue share. How was your economics in Dymista?
- Ajay Luharuka** Sameer we don't normally disclose the kind of arrangement we have, so what we do is typically there are various kinds of arrangement we have. Sometimes it is cost plus sometime it is including profit.
- Sameer Baisiwala** Okay now without quantifying it, I am saying is it nice part of the revenue? Is that the way we should think about?
- Ajay Luharuka** Sameer it will be supply price plus share of the net profit. That is how really the agreements are designed.
- Sameer Baisiwala** Alright and just one final question on Indore facility, can you share with us how much was the revenue generated in the March quarter?
- Ajay Luharuka** For the last quarter, it was about 190 to 200 crores of revenue from Indore.
- Sameer Baisiwala** Okay. That is versus 130 that you did in December, so sharp ramp up that we have seen, is it?
- Ajay Luharuka** Yeah.
- Sameer Baisiwala** Okay thank you that's all from my side.
- Moderator** Thank you. We have the next question from the line of Nitin Agarwal from IDFC Securities, please go ahead.
- Nitin Agarwal** Sir, you were talking about the Indore numbers. So for the year if I look at export formulation business in absolute term have gone up by almost 300 odd crores and I guess a Indore ramp up in itself seems to suggest like a 400 to 450 crores sort of a delta over last year's numbers or more

like 500 crores. So is that be the extent of rationalization of export that you are undertaking for the current year in terms of where we sort of given up about 300-400 crores of sales on export business which was there last year?

Ajay Luharuka

It is like see although we have about 600 crores of exports from Indore for the current year, it will be a mix of all units put together because there will be some shifting. There will be some incremental business. So we have now capacities at Indore available and we have to look at overall capacities available at all locations and then utilized according to our efficiencies and the best capacities. So it is not if the entire incremental which is coming from Indore, it is the mix of shifting as well as incremental.

Nitin Agarwal

But when you talk about you know the rationalization process that has been undergoing the business for the last for say few quarter, what have been the principals of doing rationalization and what do you see emerging out of this rationalization as we grow forward as a strategy?

V. S. Mani

See I will answer you second question first, what has emerged out is you can see in my material cost and my operating margin okay. The material cost if you really look at it there is a 5 to 6% benefit which I have got and that has taken care of some other cost which may have gone up there and there. And as far as rationalization is concerned when we talk of, we are talking of largely the ARV business where tender market there are many people who come in while earlier we may have gone for each and every one out there. Today we are more selective and we look at all the aspects of cost before we do that.

Nitin Agarwal

But you know in terms of the impact, have rationalization all these activities in terms of profitability, have you seen the best of it and you see the impact of rationalization sort of really been truly felt as you go along in subsequent quarter.

V. S. Mani

I think we felt a little more as you go along, but quite a lot has been captured. You can't ask more than improving the almost 10% of the material cost.

Nitin Agarwal

Right because somehow at least at the operating because of the increase in other cost or whatever, still the same impact.....

V. S. Mani

No but we can't do like that. If you look at it compared to the rest in this quarter and your operating margin are up by 4%.

Nitin Agarwal

That is very depressed base also for the last year.

V. S. Mani

Yeah but then year-to-year its different. If you really look at it on an overall basis, we have been managing it much better. It is all about playing the product mix game, right.

Nitin Agarwal

Right absolutely. Okay, this is good. Thanks very much

- Moderator** Thank you. We have the next question from the line Abhay Shanbhag from Deutsche Bank, please go ahead.
- Abhay Shanbhag** Yeah sir this is on the cancer price cuts for India. Now typically in some of these markets the price gap between the extractive price and the MRP is quite large and that typically in this case have you cut that price so that the price gap between the retailer sales and the MRP is going to come down or what is it exactly? Because the price cuts is reasonably large.
- V. S. Mani** Yeah obviously the overall price will be cut.
- Abhay Shanbhag** But typically in some of the segments ex-factory is less than half of the MRP and retailer mix a lot of profits so have you cut the retailer margins in such products also.
- V. S. Mani** No it will be an overall impact you know, I mean see if I am saying that they are selling it ex-factory plus.... ex-factory figure it will more like we are selling a product at a certain price. Today we reduce the price, so obviously everybody is whoever is there, the margin per unit will come down okay. If you sell more, you will get more.
- Abhay Shanbhag** Okay and what you indicated was 1% of your revenues in India come from cancer?
- V. S. Mani** That's right.
- Abhay Shanbhag** And what sort of percentage would we look at for two or three years down the line you know once you see a good pick up coming in?
- V. S. Mani** Yeah I mean we hope to grow it, putting a number may not be easy, but then we have put up some good facilities for anticancer drugs and we hope that we can use it better.
- Abhay Shanbhag** Okay, but the other one was on Lexapro, it would be a pretty high margin product right? So we have not seen too much of benefit coming in the overall margin
- V. S. Mani** As I said is not too much has been captured in the last quarter. It just started that's all. We have to see the next quarter.
- Abhay Shanbhag** Okay and your 15% guidance for bottom line, is that because tax rates are going up significantly. What would I assume the tax rate?
- V. S. Mani** Tax rate will be anyway MAT. That's where we are even now.
- Abhay Shanbhag** Okay, 10% revenue growth and 15% is PAT for your numbers going forward.
- V. S. Mani** Yes.

- Abhay Shanbhag** Okay, the last one was in Indore, so it was 190 crores of revenue what sort of utilization rate is it working at now?
- V. S. Mani** It will be roughly around 40-50%. And see one more thing Indore has got, I don't know whether you have seen the facility, we have various kind of tablets, capsule, there are injectables. There are various sorts of things. So depending on which facility you use, it could be ranging from anywhere. Some could be used at 70-80%, some could use 20-30%.
- Abhay Shanbhag** Okay fine. So it will be depend on the mix of that you..?
- V. S. Mani** It depend on the mix
- Abhay Shanbhag** Okay fine thank you.
- Moderator** Thank you. That was our last question. I would now like to hand the conference over to the management of Cipla for closing comments, please go ahead sir.
- V. S. Mani** Yeah. So thank you all very much for attending this call and it was a good quarter. We hope to continue the same way. Thank you very much.
- Moderator** Thank you so much. On behalf of Kotak Institutional Equities that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.