



“Cipla Conference Call”

May 7, 2010



MODERATORS **MR. S. RADHAKRISHNAN – CIPLA**
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MS. PRITI ARORA –KOTAK INSTITUTIONAL EQUITIES

Moderator

Ladies and gentlemen, good evening and welcome to the Cipla Conference Call hosted by Kotak Institutional Equities. All a reminder for the duration of the conference all participant lines will be in the listen-only mode and the conference is expected to last for the duration of 30 minutes. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Ms. Priti Arora of Kotak Institutional Equities. Thank you and over to you Ms. Arora.

Priti Arora

Thanks good evening everyone. Thanks for joining in for the Cipla fourth quarter FY10 results call. We have with us from the Cipla management Mr. Radhakrishnan CFO and Mr. Ajay Luharuka. Ajay over to you.

Ajay Luharuka

Thank you Priti. Good evening to all of you and welcome to the Cipla call for the fourth quarter results. We have on the call our CFO Mr. S. Radhakrishnan as mentioned by Priti. We hope you have received the fourth quarter financials and the performance highlights available on our website. We would now like to give an overview of the financials which can be followed by a Question and Answer session.

During the quarter, income from operations at about Rs. 1400 Crores grew by about 1%, operating margins at about Rs. 260 Crores decreased by 26% and profit after tax at about Rs. 275 Crores increased by about 9%. Domestic sales for the quarter grew by 8.5%, formulation exports grew by about 11% whereas exports of API and others decreased by about 14%. The lower growth in exports of API and others is mainly due to seasonal variations.

Technical knowhow/fees for the quarter has decreased by about Rs. 87 Crores on account of a high base on year on year basis mainly due to certain one-time payments received in the previous year. Material cost as a percentage for total sales has marginally increased during the quarter due to changes in product mix. Operating margins have reduced by about 26% mainly due to lower technical fees as stated earlier. The increase in staff cost of about Rs. 22 Crores is due to overall increase in manpower as well as annual increments. The increase in other expenditure is in line with increase in operations. Interest cost has decreased by about Rs. 13 Crores due to repayment of short term working capital loans and fixed deposits availed by the company during the year. While depreciation is lower by about Rs. 6 Crores, it is in line with the current year's trend.

As of 31st March, 2010, the outstanding amount of forward contracts is about USD 200 million. The company continues to follow the practice of hedging all loans if any and covering net exports billing on a month-to-month basis. The total capital expenditure for the current financial year is about Rs. 625 Crores. This is mainly for the Indore project and upgradation of other facilities.

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

- Moderator** Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Chirag Dagli of Pioneer Research, please go ahead.
- Chirag Dagli** Yes good evening sir. Quick question on your other expenditure. Is there any element of any one-off in the other expenditure or is this kind of quarterly run rate something that we should sort of model for going forward?
- S. Radhakrishnan** Yes there is not anything one-off. There is a forex loss for this quarter of Rs 20 Crores which is not normal otherwise it is something which is not one-off.
- Chirag Dagli** So this 20 Crore is mark-to-market on assets, is this forex realized, mark to market, I mean what is it exactly if you can
- Ajay Luharuka** Yes this is mark to market on the forward contracts and debtors.
- Chirag Dagli** Alright and second question, in terms of the other operating income even on a quarter on quarter basis which has sort of come off, I know you perhaps may looking at it on a quarter on quarter basis does not make sense, but on a full year basis if you were to sort of look at the business do you think 300 Crores kind of a number for the total other operating income is something that you have enough visibility to maintain?
- S. Radhakrishnan** Yes, see this other operating income basically consists of two segments, one is the technology fees and the other is the export incentives. Together, I think we would budget it at say about Rs 250 to 300 Crores for the next year also.
- Chirag Dagli** Okay brilliant. Thanks so much sir.
- Moderator** Thank you Mr. Dagli. Our next question is from the line of Manoj Garg of Emkay please go ahead.
- Manoj Garg** Yes good evening to all of you. Just about your domestic formulation business. I think if you see even sequential basis also it has come down and the growth is just 8.5%. Can you put some more color on this?
- S. Radhakrishnan** See overall domestic growth for the year is about 10.2% now, that is given the current scene in the competition and what is happening given the first quarter was low it is fair. Now, the last quarter it is normally the lean month and that is where probably it is lower than the previous quarter. Overall, we would expect our domestic business for the next year grow by 10 to 12% which I think is a fair growth considering how the market is growing.
- Manoj Garg** Okay, like some of the other companies have indicated that because of the VAT implemented in some states there was a lower off-take by the stockiest in the month of March. Was your revenue also being impacted because of that?

- S. Radhakrishnan** Not really, I mean this was even earlier because VAT impact was sometime in February not in March so I do not think that was the issue but generally in March the stock holding and the purchases are lower than any other month, stockists do not like to stock-in enough inventory as of end of march, that is the normal trend in the industry.
- Manoj Garg** I follow up the question of this technology fee, now whatever the reductions which you have seen during the quarter, it is just one-off and you expect that may be from next year onwards
- S. Radhakrishnan** This technology fee is based on milestones on projects that we are completing and there is enough projects in the pipeline for us to believe that we will at least get Rs 100 to 150 Crores in technology fees for the next year. That is where it would be our position on this.
- Manoj Garg** Okay, okay that is all from my side. Thank you. Wish you all the best.
- S. Radhakrishnan** Thank you.
- Moderator:** Thank you Mr. Garg. Our next question is from the line of Mr. Sonal Gupta of UBS Securities, please go ahead.
- Sonal Gupta** Alright. Couple of questions, one was again, you said there were one-off in the technology fees this time, could you just highlight I thought this was all linked to milestone payments, so.
- S. Radhakrishnan** No, I am saying in the last year, last quarter of last year i.e. 2009, there was a one-off payment received on technology based on milestones only. It is not different but which was not there this quarter. That base was very high which is why we saw a lower technology fees as compared to the last quarter of last year. But there is nothing one off in this quarter. These are milestone payments for ongoing project.
- Sonal Gupta** Right. And I guess you would have a sense in terms of because these are all linked to be filings that have happened in Europe and US that what is in the run rate in terms of what you do annually and given that any views on, will you be sustaining that sort of run rate in terms of your product pipeline and..
- S. Radhakrishnan** I think that is what I said, given the projects in the pipeline and the number of ANDA we have, we believe that there is enough visibility where we can receive up to Rs. 150 Crores for the next year all these kind of technology fees.
- Sonal Gupta** Right and sir on the other non-operating income could you just tell us what are the..
- Ajay Luharuka** The other non operating income is except for this year where we received the I-pill for which is exceptional item, other are routine which are interest income or miscellaneous sales or scrap sales

- Sonal Gupta** Okay and one last question on exports I understand that there has been a slow down partly because of ARV sales and you not bidding for ARV tenders but if you exclude ARV can you tell us what the business is growing at?
- S. Radhakrishnan** Generally, the formulation business that we perceive is growing at about 12 to 15% on an overall basis. If you exclude ARV it will be little higher it will be even close to 16 to 17% but that is the general growth and for API on a full year basis it was about 8% or so and we believe that API will be flat for this year. But going forward whatever forex fluctuation we believe that together we can grow by 10 to 12% on the overall export business.
- Sonal Gupta** Okay sir, thank you. That is very helpful.
- S. Radhakrishnan** Thank you.
- Moderator** Thank you Mr. Gupta. Our next question is from the line of Nimesh Mehta of MP Advisors, please go ahead.
- Nimesh Mehta** Yes thanks for taking my question. First of all can you let us know whether whatever we have earned in technology fees have already been started realizing in the commercialization of those contracts or is really the technology fee independent of....
- S. Radhakrishnan** Yes, see it is like this, technology fees are based on milestone payment before commercialization so whatever we are earning today of technology fees will result in if the product is developed and approved and we commercialize it will result in business really. So what is currently being received as technology fees are milestones on projects which are ongoing and under progress. So therefore once that is complete then it will result in business so these are two different, technology fees is first and business is later.
- Nimesh Mehta** Right, so last year we have had like 200 Crores of technology fees even in March 2009 FY09. So have we seen any ramp up in the export or overall sales because of that and can you throw some color as to what is the.....
- S. Radhakrishnan** Yes these are over a long term, it is not over a one year period. It is more of three or four years by which the commercialization happens depending on the legality, approvals and the patent status. So it is not one-year sort of a cycle it is much more. It is about three to four years. So as we go along, we believe each of these will have commercial opportunities at some stage.
- Nimesh Mehta** But nothing you see in the next one or two years that might.....
- S. Radhakrishnan** No, it is not that I do not see anything. There will be launches particularly in Europe and US which will result in business in the next one year but it is not as though something that is last year we will commercialize this year.
- Nimesh Mehta** I see, okay. And you mentioned about this fees being generated out of services for innovative companies or patented molecules is that something, so it is more like custom synthesis or what is

- S. Radhakrishnan** These are projects, which are for generic products that we are developing or making batches for our partners and getting them approved so we see these milestones on those basis. Therefore these cannot be launched until the patent situation is clear.
- Nimesh Mehta** I see okay, I understand. And this is largely for the US market if I am not wrong.
- S. Radhakrishnan** No, it is for both for US and Europe.
- Nimesh Mehta** Okay. Another question on what is the kind of sales force you have as of now and the net debt position as of now?
- S. Radhakrishnan** Net debt is zero. Sales force is about 4500-5000 people who we have as field force in the market place.
- Nimesh Mehta** I am sorry, you said net debt is zero.
- S. Radhakrishnan** Zero. We do not have any borrowings at the moment.
- Nimesh Mehta** Okay. And the sales force, have we seen any increase over last year in do you see any....
- S. Radhakrishnan** See we have been ramping up in the last two years. In fact major ramp up happened the previous year. Last year the additions have been more normal but over a two year period, yes, there had been a substantial ramp up.
- Nimesh Mehta** Any guidance that you can give as to what is the kind of ramp up you are looking at in sales force?
- S. Radhakrishnan** Future no, I am talking about the past. The future I do not think there will be ramp up. Now it will be more of productivity-oriented thing because we are among the last field force. We have already a significant number of field force as compared to the industry and now what we have been looking for is to use them to penetrate the domestic market better than what we did earlier.
- Nimesh Mehta** Okay and any particular reason of the domestic market growth being kind of modest or slightly lower than the industry growth?
- S. Radhakrishnan** It is not lower than the industry growth on an overall basis. In fact it is a line with the industry group. But generally the whole situation in the domestic market is different from the other market because of the kind of competition and the kind of the regulatory theme is completely different so there are many companies who can market even without any factories so each region where the local player and the competition levels are different, the pricing levels are different. So for company like ours we do not distinguish between domestic and export in terms of our facilities. I think the competitiveness is different in the domestic market and one has to now sort of live with this competition and perform.
- Nimesh Mehta** Okay fine. Thank you very much.

- S. Radhakrishnan** Thank you.
- Moderator** Thank you Mr. Mehta. The next question is from the line of Nimesh Desai of Motilal Oswal Securities Limited, please go ahead.
- Nimesh Desai** Good evening everybody. Could you give an outlook for FY11 in terms of what kind of top line growth and whether you would be able to maintain EBITDA margins that you would have recorded in FY10?
- S. Radhakrishnan** Yes, top line growth I think we are targeting somewhere between 8 to 10% for the next year and given that in Indore the commercial manufacturing will start or will be starting this month and dispatches will commence very soon. So given that we are ramping up Indore and once the regulatory compliances will complete in the next say six months to one year of thereabout I think the capacity will substantially be available for exploiting the markets so, that ramp up will help us in our exports but also there will be cost of Indore which will have to be absorbed in the meanwhile. Overall, yes, given our product mix and given what is in the pipeline, we hope that we can maintain our EBITDA margins to the level which we have for the full year.
- Nimesh Desai** Okay. And secondly you just indicated that you added sales force in the past two years and it has gone up significantly, why do not we see the impact of this sales force increase in terms of your domestic revenue growth?
- S. Radhakrishnan** See its not as though the additional sales force will directly accrue in business immediately but as we go along and penetrate the market obviously it will have its impact. In fact if you look it the other way the ramp up had not happened then the growth would have been lower.
- Nimesh Desai** Okay, so fine. And last question is there has been a lot of talk about you signing large deal with some of the MNC companies, would you like to say something on this?
- S. Radhakrishnan** Our managing director Mr. Lulla was on the TV and he mentioned that the talks are going on some of the products for some market but for confidentiality reason we cannot disclose until it is formalized but yes, he has confirmed that there is talk going on with some of these companies as of today.
- Nimesh Desai** Is this a development we should expect in the near future or is this going to be something which is announced may be in the long term?
- S. Radhakrishnan** No, the discussions are going on now, fairly serious discussion and I probably cannot put a timeframe but it should happen sooner than later.
- Nimesh Desai** Okay. Thank you. Thanks a lot.
- Moderator** Thank you Mr. Desai. Our next question is from the line of Tushar Manudhane of Prabhudas Lilladher, please go ahead.

Tushar Manudhane Good evening sir. Sir, just wanted to understand these guidance of 8 to 10%, does it include anything of this Pfizer deal or it is excluding that?

S. Radhakrishnan Well right now since there is nothing on in the anvil and not signed obviously it will not include anything which is not yet signed.

Tushar Manudhane And sir any new Capex for FY11 or this normal Capex for this year?

S. Radhakrishnan See roughly we are anticipating about 600 Crores for Capex which will happen in this year

Tushar Manudhane And I just need a forward contract number if you can just give me again?

S. Radhakrishnan Forward contract covered number.

Ajay Luharuka The amount of forward contracts as of 31st March is about \$200 million.

Tushar Manudhane Okay. Thank you. That is it from my side.

Moderator Thank you. Our next question is from the line of Mayank Kankaria of Deutsche Bank, please go ahead.

Abhay Yes hi this is Abhay here. Just a couple of questions, number one, on the Capex you have been adding a lot of capacities in the last four or five years, when do we see that getting converted to sales because we were expecting a sort of ramp up on revenues front which does not seem to happen. So any timelines if we could look at in terms of this getting converted to revenues coming in?

S. Radhakrishnan No, as I told you last time these capacities have been created with three-four years in mind so obviously by the time we optimize any factory particularly for the export front it will take that kind of time because the regulatory aspects are different. So in the next two-three years we would imagine there will be more optimization of the formulation capacity. So that is where we have ramped up substantially. API, still we are building the capacities and as we go along some of the expenditures will incur next year towards API. But re formulation we expect particularly the Indore that has happened just now to be ramped up in the next two-three years.

Abhay Okay, and in terms of forex is the growth on the export front to some extent impacted our forex or you had sufficient cover so it is not really impacted by forex?

S. Radhakrishnan No, because even if you cover there is at least a 10% decline because of rupee appreciation, which has affected the volume.

Abhay So technically when you cover, you cover what? you cover largely the debtors and inventory or what do you cover?

- S. Radhakrishnan** See what we are covering now is on a month-on-month whatever billing we are doing now. I am covering for, at least I am protecting my current rate. So I am not exposed to the billing rate. So if today it is at Rs. 45, and it is covered at Rs. 45 realize at 45 but tomorrow three months down the line it goes to, it appreciates to 44 then obviously I will be covering at 44.
- Abhay** No, but typically if you look at exposure the debtor days generally almost 80 to 100 days or more so are all the entire forex debtors fully covered?
- S. Radhakrishnan** No, I am coming to that. So that is on the billing front. On the debtor front we had, out of our total of 300 million, we have covered about 200 and 100 is left open.
- Abhay** Okay, so you basically covered large part of export debtors and one month of forward sales?
- S. Radhakrishnan** Yes month-to-month we cover the forward sales.
- Abhay** Okay, and so this rapid appreciation would have impacted you to a large extent.
- S. Radhakrishnan** Yes.
- Abhay** Okay. And the last question was on inhalers, have you seen any sort of a ramp up or are you willing to give any sort of numbers as to what numbers can we expect going forward or how much we record in the current quarter?
- S. Radhakrishnan** Yes, Salbutamol to UK is happening very imminently where we start billing. Apart from that the other inhalers given the regulatory framework and given the changing thing we still believe that in the next one to two years we will be able to launch some of these products for Europe.
- Abhay** And Salbutamol UK, have you sort of numbers would it be \$20-30 million product you could see going forward in the current fiscal or any sort of number you could give?
- S. Radhakrishnan** I am not able to give you any numbers at this stage here.
- Abhay** Okay fine. Thank you.
- Moderator** Thank you. Our next question is from the line of Prashant Nair of Citi Group, please go ahead.
- Prashant Nair** Yes, hi. My question was on the domestic market. When we look at ORG-IMS numbers you seem to be growing at about a much higher rate, around 17-18% over the last year or so, so any reason for the disconnect with the company sales? Is it something that will normalize or is there is a specific reason for the disconnect?
- S. Radhakrishnan** It is like this, what we are talking about is primary sales, they are talking about retail sales so there is that difference. So overall while 17-18% is the growth there is always a difference between what the stocking happens and how it happens and that is where there may be a difference and also the ORG numbers may be extrapolated from a sample of 25 or 50 stock

figures whatever number they do. So that could be the difference. I am not able to comment on that but yes these primary sales at 10 to 12% is what is the guidance that we can probably give you for the next year as well

Prashant Nair: Alright, no, but on a normal basis it is not just for next year but on a normal basis with these numbers converge over time or will they remain sort of.....

S. Radhakrishnan More accurately if they are extrapolated then it will converge otherwise there may be some fallacies on extrapolation and all that which affects the number. But I think overall it should converge somewhere because these things are also evolving and changing they should converge.

Prashant Nair: Okay, and secondly on the overall sales growth guidance does this include the Salbutamol exports to UK?

S. Radhakrishnan Salbutamol exports to UK would be included because it is part of what we have envisaged so that will be included.

Prashant Nair: Okay, thanks a lot.

S. Radhakrishnan Thank you.

Moderator: Thank you Mr. Nair. Our next question is from the line of Bino Pathiparampil of IIFL Capital, please go ahead.

Bino Pathiparampil Sir, what would be the capex figures for FY11?

S. Radhakrishnan Earlier I said, it is about 600 Crores which we will be for next year.

Bino Pathiparampil Okay great, and one more just quick question, when I look at employee cost you have not added a lot of people but still it has gone up by 17% whereas your domestic sales has gone up only 11%. In comparison to your peer companies operating in the domestic market, something seems to be different. So how do you look into that?

S. Radhakrishnan I do not think there is a direct correlation for incremental employee cost versus incremental domestic sales because employee is not only in the field but the whole company, say about 10,000 to 12,000 people already in the company and given that we are establishing new factory etc., we had Sikkim last year, we will have Indore this year, number of employees keep increasing so there will be no direct correlation but yes, from the field force front we believe these incremental will start be even more productive in the coming years due to penetration and that will help us.

Bino Pathiparampil Great, so even if I look at the overall sales, still the overall sales growth is lower than the employee cost growth so what point can we expect that operating leverage to settle. Will it happen next year or the year after next?

- S. Radhakrishnan** It is very difficult to say but if you see the past when we grow at 30%, employee cost grew by 10% so it is depending on the base and value because we are talking of 2 different bases and therefore you cannot directly correlate and give it a sense like this.
- Bino Pathiparampil** Okay, Correct, thank you very much.
- S. Radhakrishnan** Thanks.
- Moderator** Thank you Mr. Pathiparampil. Our next question is from the line of Mr. Girish Bakru of JM Financial, please go ahead.
- Jesal** Yes, hi this is Jesal. Just a question on your export business if you can give us a breakup in terms of which are the major markets?
- S. Radhakrishnan** Jesal, Africa moved about 38% for the quarter.
- Jesal** Can you also tell it for the year?
- S. Radhakrishnan** You want for the year, year figures I do not have readymade.
- Jesal** Okay, no problem, then for the quarter 38%.
- S. Radhakrishnan** Australia and Asia would be about 10%, Europe about 15%, Middle East about 11% and both the US and Latin America is about 25% together.
- Jesal** So basically all markets have been in the same region as.....
- S. Radhakrishnan** Generally, there will be not much of a change in our trends.
- Jesal** And as we look at the next year, I am just a bit surprised that your guidance is still so low, given the fact that you have done capex in the last two years plus the fact that you are now on the verge of launching inhalers in the UK, so which markets do you think are going to kind of drag your growth down?
- S. Radhakrishnan** See it is like this, the UK inhalers we are not really budgeting at this stage because we still feel its a distant away so if that happens obviously will be different, number one and as far as capacity is concerned Indore that is the major addition to capacity, now the regulatory aspects of Indore will take at least one year or so to get completed, so that is the gestation that will happen before we are ready to now use it to a substantial degree. So I believe therefore in the next one-two years many of these capacities will get more optimally utilized.
- Jesal** So what is the current capacity utilizations for formulation capacities that you have?

- S. Radhakrishnan** Well Indore has just started so it substantially at the moment not utilized we are just beginning commercial production and otherwise if you leave Indore our capacity utilization will be about 70% or more.
- Jesal** Right, and secondly similar breakup if you can give across the major therapeutic areas that you have?
- S. Radhakrishnan** For the quarter?
- Jesal** Yes for the quarter.
- S. Radhakrishnan** Let me see if I have it here. I do not have the quarter breakup and all.
- Jesal** Do you have for the year?
- S. Radhakrishnan** Yes, generally it is like this, yes I have it now. Antiretroviral is about 22%, antiasthma is about 15% and antibacterial is about 8%. The oncology drug is about 6%. These are the major ones.
- Jesal** Sure. And this is for the quarter or for the year?
- S. Radhakrishnan** This is for the quarter.
- Jesal** Right. And can you also just give us the receivables and the inventory?
- S. Radhakrishnan** Receivables the number of days is about 175 today as compared to about 190-200 in the last year. So receivables are substantially controlled and one of the reasons why probably even there is a little slowness in our business because we are more tighter in our controls and also therefore the receivables have become lower.
- Jesal** Right, so your total receivable number would be what, close to about Rs. 18.5 billion which is the same as last year or would it be more or less?
- S. Radhakrishnan** About Rs. 1350 to 1400 Crores in rupee terms.
- Jesal** Okay, that has come down quite a bit year-on-year.
- S. Radhakrishnan** This is for exports I am talking, yes it has come down.
- Jesal** So for that what would be the total number then?
- S. Radhakrishnan** Domestic will be about another 200 Crores.
- Jesal** Fine. Now the last question from my side is on the inhaler business if you can take us through in terms of what is your plan of registering the other combination inhaler in Europe and which are

the major markets you are looking at and any thoughts you have in terms of how you would monetize that in terms of partnerships?

S. Radhakrishnan

See in terms of registrations in the European market, as you know we have received approvals of Budesonide in Germany, Portugal and Salbutamol MDI in Denmark as well as UK and Portugal. Now so far there are 8 HFA inhalers which were developed for EU and 6 have been submitted for registration and we are in the process of the trials of multi-dose powder inhalers for European market. Now in terms of timeframe, we believe in the next 1.5 to 2 years most of the registrations and compliance work should be completed and also when are these inhalers are going off patent so, for the next 2 years we believe substantial amount of this work will be done and we would be ready to commercialize which will be also aligned to our Indore capacities and being approved and all that, so we would imagine by the next 1 to 2 years a substantial amount of this regulatory compliances will be completed for and we will be ready to launch these products in some of these markets.

Jesal

Thank you, you said, salmeterol and fluticasone I think last time you had mentioned about it that products for EU market were still undergoing clinical studies?

S. Radhakrishnan

Absolutely yes.

Jesal

Right. And for the partnerships, you had given some numbers at the beginning of the first quarter if you can give us an update in terms of how many partnership deals you have now for US and for EU and how many products have been filed and how many launched?

S. Radhakrishnan

Sure. See for the US, we are working with 22 partners today and we have about 57 ANDAs approved and there are 41 under registration and about 45 to be submitted for registration, various stages of development. Out of the 57 ANDAs approved 35 products have been commercialized in US. That is the US and as far as Europe is concerned, there has been no major change from last time.

Jesal

Okay thank you so much.

S. Radhakrishnan

Thanks.

Moderator

Thank you Mr. Bakru. Our next question is from the line of Prakash Agarwal of RBS Equities, please go ahead.

Prakash Agarwal

Yes, good evening sir, just wanted to ask in terms of run rate of other cost and staff cost, agreed there was a 22 Crores kind of one-off for this 4Q, but do we see this quarterly run rate going forward in such a high pace?

S. Radhakrishnan

See I told you some of the staff costs are basically because of a new factory being put up Indore for example has come and will be the new factory for this quarter. So obviously it will have its own incremental cost. Otherwise, I do not see anything which is substantially going to be higher as far as the coming quarters are concerned.

- Prakash Agarwal** And in terms of growth it seems like you have given a little conservative guidance, do we see next to next year a little higher, because the Indore facilities would be coming up plus your Sikkim facility which commenced operations some couple of years back would also come in full fledged?
- S. Radhakrishnan** See Sikkim is already now substantially optimized for domestic market, so that has happened already and we will continue to help and grow the domestic market. As far as Indore, that will help us in the forefront and that is where substantial capacities have been created for exports and once the regulatory approvals have happened, I think that will definitely help us ramp up the export market. On a 2-year basis yes, there are a lot of things which are expected to happen in terms of regulatory approvals on inhalers. Some of the deals that we are looking at, all these should help on an overall basis if you take a two year horizon.
- Prakash Agarwal** Okay, last question on your OTC product side, do you have similar products like I-pill that you sold and if yes would you even look at selling it again to other players?
- S. Radhakrishnan** Nothing, major now on the pipeline. There are some minor products and I do not think that is going to have a significant impact on the company's results in the coming year.
- Prakash Agarwal** Okay thanks sir.
- S. Radhakrishnan** Thank you.
- Moderator** Thank you. Our next question is from the line of Ritesh Shah of IDFC SSKI. Please go ahead.
- Ritesh Shah** Hi, good evening sir, sir coming back on export formulations, I mean we grew 7% this year, partly you mentioned it was a tightening of the credit norms because this 7% is like a significantly lower number, that we have been doing over the last few years, was there any other factors which really contributed to this lower growth for the current year?
- S. Radhakrishnan** Yes, it is substantial. Overall, in terms of rupees differential it was 47 on an average last year it was 45 this year, so there itself it is about 10% dip on the volumes which obviously has shown in the volume growth that was one of the major factors which has affected. The other one obviously is the lower tender business we have done particularly in the second quarter you should remember we had substantially lower tender business which had affected and also on the inhaler front, there were certain issues on the gas availability sometime during the year, so all that put together cumulatively affected the business, but over all we understand for the next year, our guidance is about 12% is what we think we will achieve on this base.
- Ritesh Shah** This is in the rupee terms.
- S. Radhakrishnan** Yes.
- Ritesh Shah** For the overall export business?

S. Radhakrishnan Yes.

Ritesh Shah And sir on your guidance beyond the 10-12% that you guided 12% for the export business, are there certain events or triggers which can kind of play out, which you haven't really factored into the numbers, which can lead to upside on these?

S. Radhakrishnan Yes, there are certain factors which we have not probably budget in our overall growth which if happens is a bonus.

Ritesh Shah I am not really going to specific, what could be the kind of nature of some of these events that I can?

S. Radhakrishnan Inhalers for instance, sooner it happens is better for us and that will give us substantially hike in the volume growth that is one such as factor.

Ritesh Shah The combination inhalers?

S. Radhakrishnan That's right.

Ritesh Shah Any more visibility on that, I mean?

S. Radhakrishnan As I told you, most of these products are on the various stages of clinicals and our understanding is that in the next one and half to two years many of them should see the market.

Ritesh Shah Okay thank you very much.

Moderator Thank you Mr. Shah. Our next question is from the line of Sameer Baisiwala of Morgan Stanley, please go ahead.

Sameer Baisiwala Hi, good evening. I am just little confused on the guidance, I think individually you have said about 12% for exports, if I am not wrong you said domestic 10-12%, but your overall top-line guidance is 8-10%.

S. Radhakrishnan There are 3 factors in this, one is the domestic, one is the export and one the technology fees. Together we are talking 8-10% as a growth factor and it is depending on which end we are choosing. So overall our guidance will be 8-10 % for the year. Now in that given our export, obviously being the thrust area, I think we will do it at about 12%, again it is 10-12 if you take and domestic will be 8-10 so overall that is how it could span out.

Sameer Baisiwala Domestic individual is 8-10?

S. Radhakrishnan Yes.

Sameer Baisiwala Okay and just on capacity utilization, you mentioned 75% was that excluding Indore?

- S. Radhakrishnan** Yes.
- Sameer Baisiwala** Okay now if you were to include Indore assuming that it can start firing today, what would be your capacity utilization just to have an idea how much Indore adds to be overall?
- S. Radhakrishnan** No, Indore I can give you overall what is the capacity of Indore which will give you an idea. Indore comes with various facilities, actually 4 plants factories in Indore of which FFS eye drop which is in plant one is about 45 million annual capacity, ophthalmic preparation is about 90 million, the respules is about 75 million, liquids is about 50 million, so that is on plant one. On plant two, aerosols is about 30 million and then in plant three, there is pre-filled syringes about 50 million, eye drops 15 million, and nasal spray 15 million and the last plant is the plant four which has tablets another 1300 million and capsules 720 million. So, we have substantial capacities and this is basically giving us a major increase in capacity for exports. Which we believe in the next 2 years or 3 years once they are completely approved by all agencies will give us the benefits as we go along.
- Sameer Baisiwala** Okay excellent. But just on the Indore facility, you mentioned it would take about 6-12 months for the regulatory work to be over.
- S. Radhakrishnan** Or even more, may be minimum of 12 months and a maximum of 2 years.
- Sameer Baisiwala** Yes, so what I am trying to understand here is, is that the timeframe for you to submit the dossiers or for the dossiers to get approved?
- S. Radhakrishnan** For making batches there, validation batches, submitting inspection approval.
- Sameer Baisiwala** So how many dossiers have you across geographies, have you already submitted from Indore right now?
- S. Radhakrishnan** No it is just starting. First the facility has to be approved so for example inhalers, we start manufacturing our major inhalers there, make the validation batches and send it and get the agencies for approval, and get it approved. So each of the process for each of these dosage forms wherever we have elsewhere in the capacity we have created each of those products we will have to start. We have just to start from now.
- Sameer Baisiwala** So right now probably hardly any dossiers have been filed, I mean that is right to say.
- S. Radhakrishnan** That's right.
- Sameer Baisiwala** Okay excellent.
- S. Radhakrishnan** And manufacture is to happen first before we get the approval.
- Sameer Baisiwala** Sure and just for the U.S. market, you mentioned out of 57 approved tenders 35 have been commercialized. What stopping us from selling the balance 22?

S. Radhakrishnan It is not stopping. It is an ongoing process.

Sameer Baisiwala So, other 22 too would hit the market at some point in time?

S. Radhakrishnan Yes.

Sameer Baisiwala Okay and for the HFA inhalers, I am just curious, aside of regulatory issues are the legal impediments I think you mentioned, Budesonide in Germany, so are there any court dates that we need to worry, are there any litigation outcome that we are waiting for?

S. Radhakrishnan No there is none.

Sameer Baisiwala Okay and just one final housekeeping question. On this 95 Crores I-pill sale, what is the tax rate on that?

S. Radhakrishnan It is a completely taxed.

Sameer Baisiwala Okay, thank you very much.

S. Radhakrishnan Thanks.

Moderator Thank you. Our next question is from the line of Saion Mukherjee of Nomura. Please go ahead.

Saion Mukherjee Yes, just two questions. Can you tell us what are the R&D costs for the year and the tax rate that you should assume going forward?

S. Radhakrishnan See, we are on MAT so it is easy to predict the tax rates, which is certainly the MAT rate which is about 20% now in the new finance bill. As far as R&D, it is roughly about 4% of our turnover.

Saion Mukherjee 4% of turnover, okay, thanks a lot.

S. Radhakrishnan Thank you.

Moderator Thank you Mr. Mukherjee. Our next question is a follow up from the line of Sonal Gupta of UBS Securities. Please go ahead.

Sonal Gupta Yes sir. This one persisting on inhalers, I just wanted to understand in terms of device technology, the inhaler device has been developed by you, it has been in-licensed from somewhere, can you give us some clarity on.....

S. Radhakrishnan These are our own devices developed by us and these are what are getting registered.

Sonal Gupta No, so even when you originally launched in the Indian market, these devices were sort of made by you.

- S. Radhakrishnan** Absolutely, these are our own devices patented by us.
- Sonal Gupta** So, they are all patented by Cipla?
- S. Radhakrishnan** That is right.
- Sonal Gupta** So do you anticipate because I guess device technology is one of the major impediments and do you anticipate any issues on the device technology side which could prevent you from launching on certain products and..
- S. Radhakrishnan** Yes, see one of the regulatory compliance would be the device and how it has to be, how is the compatibility of the originator or how the device should look like, and all that would sum up the regulatory compliance we have to put along with the efficacy of the drug so obviously it is one of the hurdles we will have to cross.
- Sonal Gupta** Okay sir and sir could you tell how many ANDAs you file this year?
- S. Radhakrishnan** Overall, I have the number. I do not have what we filed this year, but overall as I told you at about.....
- Sonal Gupta** That I have, so..
- S. Radhakrishnan** Yes, I can tell you Sonal. I can send a mail to you on this issue, if you do not mind.
- Sonal Gupta** Sure sir. And just on these plants being brought from the promoter family. Could you just explain that?
- S. Radhakrishnan** These are very two small factories. One is the Sikkim factory. We have our own factory in Sikkim alongside that there is a one normally in the pharma business, some of these factories are catering dedicatedly for Cipla and this factory which is in Sikkim which we have acquired now was set up last year and given that we are very comfortable with Sikkim and given that 100% produced will go into Cipla while getting setup and it is as good as it felt better commercial sense for us to control and takeover so virtually factory has been taken over at cost price by Cipla to help Cipla to get the production done from the dosage form that they can make, so that is number one. The other one is a 15-year-old factory which is approved by USFDA and we feel given the regulatory environment we felt that doing contract manufacturing for Cipla given that the current state of regulatory environment it can come over to Cipla can get direct control in the manufacturing and other processes that would happen in the factory. These are the two acquisitions which are very small compared to our side which has been just made.
- Sonal Gupta** You are right sir. And sir just one final question was on the margins even if I exclude the lower taxes. The margins are lower this quarter substantially lower than last quarter. So, I understand there has been some change in revenue mix, sales mix, but could you just elaborate on that as to what change is?

S. Radhakrishnan Basically, if you remove the technology fees and if you compare, I think it would not be as low as because there were huge 80 Crores base in technology which is one-time which is why so affected, but if you were to ignore that and then I think it is quite comparable.

Sonal Gupta Okay, thank you.

Moderator Thank you. Our next question is from the line of Nimesh Mehta of MP Advisors. Please go ahead.

Nimesh Mehta Yes. Just one quick question. If you can throw some light on the other income which has been very high this quarter?

S. Radhakrishnan The other income this quarter?

Nimesh Mehta Yes.

S. Radhakrishnan Do you want the breakup for other income?

Nimesh Mehta Yes that will be great.

S. Radhakrishnan We can send it to you because I do not have readymade at the moment.

Nimesh Mehta Okay, but why was it so high any color on that would be enough for me.

S. Radhakrishnan It is not substantial, its 45 Crores against 15, it is not major difference in the overall. It is percentage wise high but in quantum sense it is 30 Crores is increased for the quarter which I can send you the breakup.

Nimesh Mehta Okay fine and quickly you mentioned the technical fees to be roughly about 100 and 150 Crores in the next year right that is what you expect, okay and the total operating income about 300 Crores.

S. Radhakrishnan It can be ranging from 250 to 300 depending on the range if I would give it a range of 250 to 300.

Nimesh Mehta 250 to 300, okay fine. Thank you very much.

S. Radhakrishnan Thank you.

Moderator Thank you Mr. Mehta. Our next question is from the line of Anshuman Gupta of Ambit Capital. Please go ahead.

Anshuman Gupta Hi, my question has been answered. Thanks.

- Moderator** Thank you. Our next question is a follow up from the line of Nimesh Desai of Motilal Oswal Securities Limited. Please go ahead.
- Nimesh Desai** Yes, just can you give us some kind of visibility or feel on potential launch of generic seretide, any timelines, anything that you can provide us?
- S. Radhakrishnan** Overall inhalers I can provide you, particularly on seretide, I may not be able, but overall if you imagine some of the products which are under registration will happen in the next one and a half to two years is what we believe.
- Nimesh Desai** Okay and you mentioned tax rate at 20% but with Indore SEZ coming in should not your tax rate be going down?
- S. Radhakrishnan** That will have largely impact probably in the next year because year one Indore will not substantially be in use because of the regulatory framework. You are right. Post that, it will be exempt from MAT.
- Nimesh Desai** Okay, understood. And last thing is we see that you have Forex hedges of about 200 million. Now considering your size of operations, what is the thinking here, are not you grossly under-hedged if the rupee were to appreciate?
- Radhakrishnan** It is a call that we have been taking. One year ago situation was different. What as a policy we are trying to do is at least we are trying to cover our billing rate so that we are covered for that and at some stage cover whatever outstanding debtor which are uncovered. So, policy going forward is to have the cover on whatever one month forward billing so that we are protected for the billing rate and we are not able to take a view given the ways uncertainties that happened and the various fluctuation is happening, but one thing we are doing is we are covering the month-to-month forward billing number one and also covering all the other loan on Forex if there are any. Today there is none so there was no cover there but otherwise that is the policy we have agreed internally.
- Nimesh Desai** Okay and this 200 million hedges have been taken at what average rupee-dollar rate?
- Ajay Luharuka** It will get an average of about 47.
- Nimesh Desai** 47, okay. Thanks a lot. Thank you.
- Moderator** Thank you Mr. Desai. Our next question is a follow up from the line of Mayank Kankaria of Deutsche Bank. Please go ahead.
- Abhay:** So on this acquisition front, are there any more which you are outsourcing from which you could look at something like this going forward?
- S. Radhakrishnan** Not really nothing on the anvil at the moment.

- Abhay:** So you do not see any more such acquisitions going forward.
- S. Radhakrishnan** Nothing at the moment.
- Abhay:** And in terms of Forex lost you indicated in the quarter you have 20 Crores, do you have the corresponding numbers for last year fourth quarter and the current three quarters?
- S. Radhakrishnan** Corresponding numbers, I can give you Abhay I do not have at the moment. I can send it to you Abhay.
- Abhay:** Yes fine, thank you.
- Moderator** Thank you Abhay. Our next question is from the line of Chirag Dagli of Pioneer Research. Please go ahead.
- Chirag Dagli** Thank you for taking my question. You recorded about 350 Crores of cumulative tech licensing fee over the last 2 years, would it be fair to say that a substantial part of this tech licensing fee has come from inhalers and registrations there on?
- S. Radhakrishnan** No, that is not only inhalers, it has been several products including inhalers for Europe as well as U.S.
- Chirag Dagli** Okay, so you would say that inhalers would not account for more than like 25-30% of this licensing fee?
- S. Radhakrishnan** I am not able to quantify the percentage.
- Chirag Dagli** But this number per se does not seem very-very outlandish.
- Radhakrishnan;** That is right.
- Chirag Dagli** So would it also mean that going by what you have indicated that commercialization growth or export sales growth will sort of lag tech licensing fee grow by say 2 to 3 years. Can we sort of assume that over the next two years incremental growth, say 25% of your incremental growth basically comes from inhalers and the balance from the other products? Is that the right way to look at it or am I missing something?
- S. Radhakrishnan** Depending on, it not may not be because it is like if you have inhalers happening in Europe, then the incremental growth of inhaler will be far higher depending on how it pans out but...
- Chirag Dagli** I am looking at it on a cumulative basis, so here versus than over the next 3 years, so really speaking one year, two years, where in it does not matter, but may be cumulatively over the next 3 years, let say if your incremental growth would be from 100 to let say 200, then that substantial part of that incremental 100 comes from inhalers. So, would it be fair to say that 25% of that incremental 100 comes from inhalers?

- S. Radhakrishnan** Very difficult to quantify that because there are several products depending on how it pans but roughly today if you ask me for the inhaler portion of the total formulation is about say 16% or 15% so that is where we are. So, to say that it will be 25%, it is something which I am not able to really quantify and confirm whereas antiretroviral is about 20%, these are the major product books that we have today, so incremental has to come from one of these products.
- Chirag Dagli** Sure, okay. And on more macro business model perspective, would it be fair to say that when you look at your inhaler products, there are two value additions that Cipla is actually doing, one is obviously developing the product and the other one is essentially manufacturing but the substantial part of the value accretion that comes to Cipla happens at the development or post the development phase or do you think there is equal amount of money to be made even at the manufacturing level?
- S. Radhakrishnan** Fully at the commercialization. What we have at the moment is just the agreement for milestone completion. Real business is where one is really we are doing all this for.
- Chirag Dagli** Okay, so substantial part of the value attrition actually happens at the manufacturing bit?
- S. Radhakrishnan** Yes and it is commercialized.
- Chirag Dagli** Alright, thank you sir.
- S. Radhakrishnan** Okay.
- Moderator** Thank you Mr. Dagli. Our next question is a follow up from the line of Sameer Baisiwala of Morgan Stanley. Please go ahead.
- Sameer Baisiwala** Just if you can quantify the loss of sales in fiscal 2010 because of unavailability of gas and loss of tender business in Africa?
- S. Radhakrishnan** I am not able to quantify that, but obviously one of the quarters was hit badly, I do not have the readymade figures to quantify.
- Sameer Baisiwala** Would it be 5% of the overall sales or that is too high?
- S. Radhakrishnan** That is too high.
- Sameer Baisiwala** Okay, thank you sir.
- Moderator** Thank you Mr. Baisiwala. Our next question is from the line of Prakash Agarwal of RBS. Please go ahead.
- Prakash Agarwal** Hi sir. On this Forex side, I just missed that part, what is the Forex loss or gain that you might have incurred?

- S. Radhakrishnan** For this quarter, about 20 Crores is the loss.
- Prakash Agarwal** Quarter, 20 Crores loss.
- S. Radhakrishnan** Yes.
- Prakash Agarwal** And sir technical you said 250 to 300 Crores you are looking for next year.
- S. Radhakrishnan** Not technology, I am talking about the other operating income.
- S. Radhakrishnan** The total put together.
- S. Radhakrishnan** That is right.
- Prakash Agarwal** And sir lastly, any color you would like to give on your biosimilar portfolio?
- S. Radhakrishnan** Biosimilar, yes this is something which we are working on out here and as I said we have a joint venture arrangements with our Chinese partner and the company's clinicals and regulatory work for India has started and going forward, we plan to enter and formalize the agreement for development and production of supply in the market and which will happen in the coming year as I understand.
- Prakash Agarwal** Any products you would like to give?
- S. Radhakrishnan** There are at least about 5 to 6 products that we are currently working on and which will be announced as and when we announced the joint venture formally.
- Prakash Agarwal** Okay, thank you sir.
- Moderator** Thank you. Our next question is from the line of Sonal Gupta of UBS Securities. Please go ahead.
- Sonal Gupta** One final follow up on Capex. I understand you said 600 Crores for this year, but if you look now that you are saying that is substantial I guess the FY08 to FY11 period which was the substantial capacity investment is over. If you look beyond that, how do you see the sort of sustainable Capex amount and what would be the sort of normal Capex that you will need to incur?
- S. Radhakrishnan** For this year, the projects that we are working on our Patalganga and Bangalore, the API facilities plus the routine Capex and the Vikhroli R&D and the Patalganga R&D facilities. These are the major projects that we are working on. So and this would substantially complete our Capex on the project level at least for the next couple of years. Now apart from that, we are not obviously including whatever investment we may like to make on bioproject if that happens that will be additional.

- Sonal Gupta** But any numbers on the current sort of if we exclude the biosimilars should we see this coming around 400-500 Crores a year?
- S. Radhakrishnan** Yes, it should be around that region on a routine basis. You are right.
- Sonal Gupta** Okay, thank you sir.
- Moderator** Thank you Mr. Gupta. We have a question from the line of Sameer Mistry of Birla Sun Life. Please go ahead.
- Sameer Mistry** As investors, should we take this particular quarter as an aberration because what has happened is you raised money from the market, you will be doing Capex for the last couple of years, but if you look at the domestic growth, it has not been consistent in fact other companies are growing at a much higher pace. Secondly, your exports also have not been keeping pace. They have hardly grown this particular year and on top of that, you have added lot of employees also in the last two years. So when would we get to see actual good numbers coming up?
- S. Radhakrishnan** As I told you, we have given the numbers that we are projecting for the year which is 8.
- Sameer Mistry;** Your guidance itself is hardly about 8 to 10%. I can understand that you have not taken into consideration the Europe inhaler business, but still 8 to 10% is on the lower side and one more thing is on the operating margins, there was a question on the operating margin, but even if you remove the technology income, your margins have actually fallen in this particular quarter from the regular 22-23%, it is about 17 to 18% even if you remove the Forex losses.
- S. Radhakrishnan** Not Forex losses because we are talking of technology.
- Sameer Mistry** Even if you remove the technology income, it is around 17 to 18% vis-à-vis the 22 to 23% you have done in the last 9 months.
- S. Radhakrishnan** Because as I told you one of the major top-line hit that we had taken this quarter is on the rupee appreciation which is affected by about 10% to 12% that would be the other factor which has affected in this quarter. So that way yes this quarter is being lower for that reason.
- Sameer Mistry** But should we take this quarter as an aberration or you should be seeing good times ahead now from here on?
- S. Radhakrishnan** See I would rather go on the whole year performance and building from there because quarter-to-quarter there could be fluctuations.
- Sameer Mistry** Okay thank you.
- Moderator** Thank you Mr. Mistry. It appears that that was a last question. I now hand the conference over to Ms. Priti Arora for closing comments.

Priti Arora On behalf of Kotak Institutional Equities and everyone on the call, I would like to thank the Cipla Management for taking out time for this call. Thanks.

S. Radhakrishnan Thank you.

Moderator Thank you Ms. Arora, thank you gentlemen of the management. Ladies and gentlemen on behalf Kotak Institutional Equities that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines.

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