"Cipla Q1 FY17 Earnings Conference Call"

# August 12, 2016

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**Moderator:** Ladies and Gentlemen, good day and welcome to Cipla Q1 FY17 Earnings Conference Call hosted by Kotak Securities Limited. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If you need assistance during the conference call, please signal an operator by pressing '*' 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. Chirag Talati. Thank you and over to you sir.

**Chirag Talati:** Good Evening, Everyone. This is Chirag here from Kotak Institutional Equities. I thank the Cipla management team for giving us the opportunity to host this call. From Cipla, we have with us today Subhanu Saxena -- Global CEO; Samina Vaziralli -- Executive Director, Umang Vohra -- Global Chief Operating Officer, Kedar Upadhye -- Global Chief Financial Officer and Alpesh Dalal -- Head of IR. I now hand over the call to the Cipla management team for their remarks. Over to you, sir.

**Alpesh Dalal:** Good Evening, everyone. Just a disclaimer that on this call our discussions will include certain forward-looking statements which are predictions, projections or other estimates about our future events. These estimates reflect the management's current expectation of Cipla's future performance. Please note these estimates involve a number of risks and uncertainties that could cause our actual results to differ materially from what is expressed or implied. So with that we will start.

**Subhanu Saxena:** So Good Evening everybody and Welcome to Cipla's Q1 FY17 Earnings Call. This is Subhanu Saxena. We today will not only go through the results, but we made some important announcements that I just want to cover at the start of the call. As you would have seen, my family circumstances are requiring me to relocate my family back to the United Kingdom and I will be pursuing opportunities there, but also I will be keeping a strong India connect by certain engagements and more to follow with the coming weeks.

What makes this transition very smooth is that we put all the building blocks in place for the next phase of Cipla's growth. So when I came to Cipla, I had three personal objectives that I took on: First was to put a strategy in place to put Cipla on the world stage; the Second was to build a strong management team and succession depth for myself; and Third was to facilitate the generational transition of the promoters. If we look at each of those on the first one you will have seen over the last 2-3 years we have made investments to take back control of our emerging markets business, fill key geographic gaps in our portfolio via strategic acquisitions such as South Africa and most importantly recently the United States, to revamp our pipeline and move R&D spend from 2-3% to close to 7%, to invest in potentially new businesses of the future for the Company and build strong management talent and depth across the organization. We did all of that plus we have also become "Partner of Choice" for many companies with licensing and partnering and all those building blocks are in place, and you see that now in the results for this first quarter, very much in line with the strategic priorities we laid out at the last quarter and very much in line with the guidance that we have given.

In terms of management team, one of the things you do on day one of any CEO is "Succession Planning". We have identified and went through a process a couple of years ago to identify and bring on board my successor, and I think in many ways you can see this as a text book plan that we did; we identified Umang early, we brought him on as CFO, we gave him the COO portfolio, he has excelled in all of his responsibilities with the company, and whilst my family timing is what it is, it meant that we could easily agree with the board a succession plan and I am delighted that Umang will be taking over as M.D. and CEO of Cipla from end of August.

Importantly, we were able to bring on board a very strong global CFO and I would like to take this opportunity to introduce Kedar Upadhye, Kedar joined us as a the Global CFO and will also be a part of the management council. He brings with him deep industry understanding apart from just functional expertise in Financial Accounting, Reporting, Business Analytics, Costing, Business Development, Investor Relations and Strategic Planning,and he will be a superb business partner for Umang and they have worked closely with each other in the past and is very much part of the design to have a management team that can work well with each other.So we are delighted with the team that we now have in place.

In terms of the third of our priorities that I mentioned, I took on a commitment when I came, to mentor the next-generation of the promoter family.It is an absolute joy seeing how Saminahas grown in the business; she took on the responsibilities of Strategy, M&A and also our New Business Ventures in Biosimilars and Consumer Health.Those are going very well, maybe we will hear more about that later in the call. It was felt this is the right time for the promoters to really take the next stage in that generational transition and hence the appointment of Saminato Executive Vice Chairman, Cipla.

We said many times that the ideal modelis a promoter-led professionally managed company as the decisions are very much with the M.D. and the CEO. I have had the privilege of enormous empowerment over the last 3.5 years, that will continue but it is equally important that Cipla differentiates itself because of its mission and values, and I think Samina will play an important role not only in terms of the governance of the company, but also ensuring the mission and values of Cipla, that flame stays high and supporting and working very closely with the management team for the next phase of Cipla's growth.

So what we will do now is hand over to Kedar so that he can walk us through the financials for Q1 and then take questions later on in the call. Kedar, over to you.

**Kedar Upadhye:** Thank you, Subhanu. Good Evening to all of you and Welcome to our Earnings Call for the First Quarter of Fiscal 2017. I hope you have received the 'Investor Presentation' that we have posted on our website.

I will walk you through some of the Key Financial Highlights of our performance this quarter. You would have read in our results announcement that we have transitioned to IndAS accounting framework with effect from this quarter. We have given a reconciliation of the

change in net profits for comparable periods of Q1 FY16, Q4 FY16 and full year of FY16. You would notice a nominal impact on our revenues and EBITDA numbers as compared to the earlier reported Indian GAAP numbers. Please refer to our SEBI filings for more details.

As you are aware, Cipla has taken a conscious decision to focus on and deepen its presence in our priority markets of India, South Africa and US. Its markets are positioned for growth driven by the portfolio of acquired entities as well as our internal pipeline which is ramping up. The results for this quarter reflect this focus. There has been a decline in emerging markets on account of currency volatility, complexity reduction and country and product rationalization initiatives. Overall income from operations this quarter stands at Rs.3,595 crores, it declined by 6% year-on-year.You are aware we had a very significant benefit from Esomeprazoleprofit share last year this quarter.That is why revenue, profit numbers are not comparable. Our focused efforts on product mix and cost control measures have resulted in improvement in the base business EBITDA, which is growing healthy double-digits as compared to the last year.

Our focus on operational efficiencies has also resulted in the improvement in our cash flows and operating cash flows for this quarter stand at Rs.622 crores on account of good control over inventory levels. As I highlighted earlier, EBITDA for this quarter is about Rs.611 crores or 17% of revenues despite currency volatility in emerging markets and ramp up ofConsumer Healthcare and Biologics business. The EBITDA margin is also impacted by a one-off charge of Rs.29 crores in relation to acquisition of the product rights for the US market. Total expense for the quarter stands at Rs.1,612 crores, an increase of 5% year-on-year. Employee cost for this quarter is Rs.687 crores, an increase of 11% year-on-year; this increase is largely attributable to consolidation impact of acquisitions.Excluding the impact of InvaGen employee expenses grew by 2.6 percentage points. The other expenses for this quarter, which include R&D expenses, regulatory, quality, manufacturing and sales promotion expenses, have largely remained flat at Rs.926 crores. In line with our focus on R&D, the spend and investments have gone up by approximately 40%, total R&D spend is about 6.6% of revenue as compared to 4.4% last year same quarter. The PAT percentage for this quarter is about 10%. Our guidance for the financial year continues to be same at 16% to 18% of the base business EBITDA.Our CAPEX stands at 10% of sales and reflecting our continued investments in building state-of-the-art manufacturing capabilities. During this quarter we invested Rs.351 crores on capital expenditure. Our long-term debt stands at USD 580 million which was mainly used to fund our US acquisition. We also have working capital loans of about $150 million which act as a natural hedge towards our receivables. Total debt-to-equity ratio is 0.4; net debt-to-equity ratio is 0.28.Outstanding forward contracts as a hedge for receivables as on 30th June is about $31 million and ZAR431 million.

With this I would now like to invite Umang to present the Quarterly Business and Operational Performance.

**Umang Vohra:** Thank you, Kedar and thank you for joining us on our Quarterly Call. Domestic sales for Q1 stand at Rs.1,449 crores and have registered a growth of 5% despite the continued impact of

pricing regulations under DPCOand the ban on certain FDCs. Our international sale which reflects sales of all regions outside of India have experienced decline of 14% as compared to Q1 of the previous year with the absolute sales closing at Rs.2,051 crores. The decline has been on account of minimal Esomeprazole receipts as compared to the quarter in the previous year and this has been offset by the inclusion of InvaGen revenues during the quarter. Our sales in South Africa and base business of North America continue to show robust growth and in local currency terms over 20% in both markets.

I will now take you through the Business Performance starting with our India Rx business: Our Rx business grew at 5% despite continued DPCO impact, ban on certain fixed dose combination and destocking by distributors. Out of the 23 Cipla brands in the top 300 IMS brands, 13 brands grew more than the respective markets. Our top therapies grew higher than market. As per the IMS MAT data for June'16, our Respiratory portfolio has grown by 9.8% versus the market growth of 9%.Anti-Infective, Urology and Dermatology portfolios have grown in double-digits. We have continued to build a portfolio through innovative launches in Urology, Dermatology and Gastrology. Our Generic business grew at 9% for the quarter. We continue to sign partnering agreements with MNCs, the results of which you will see through launches in Q2 and beyond.

Our North America business excluding the impact of one-offs in InvaGen has registered a growth of 30%-plus compared to last year in dollar terms. Integration of InvaGenPharmaceuticals and Exelan is on track to create leverage and scale to benefit our North America business in Cipla as a company. 18 of our 38 products-strong portfolio in the US enjoy leadership positions in the market. During the last 6 months, we launched 7 products enhancing our commercialized portfolio size to 38.We also filed 4 products in this quarter and are targeting to file 20 to 25 ANDAs in this financial year. Like we mentioned earlier, we have an interesting mix of products planned for launch in Q3 and Q4 of this year between InvaGenand Cipla. We expect over 15 launches in the remainder of the year.

Our South Africa business has shown very strong growth across both private markets and tender business with Q1 sales growing at 22% compared to last year's local currency terms. Our private markets business is among the fastest growing in the market and experienced robust growth of 14%, considerably higher than the market growth of 7%. We continue to expand the market share in focus therapies like Respiratory, CNS and Oncology and in all those therapies we have grown at double-digit growth rates. In the tender market, our target is to improve the overall margin profile of the business by focusing on profitable segments and dosage forms. We continue to aggressively explore in-licensing partnerships with several deals at advanced stages of negotiation. Recently, Cipla partnered with the South Africa government to set up a state-of-the-art Biosimilars facility, with an aim to make affordable biologicals in line with Cipla's philosophy of improving access to life saving drugs.

In Europe, our sales de-grew by 1%, but we are attempting to launch FPSMover most markets in the next two quarters. We are in advanced stages of business restructuring in Europe and our

goal is to make Europe profit-accretive by Q4 of this year. In emerging markets, the sales declined by 11% in dollar terms on account of tender order phasing, pricing regulations and currency depreciation in major markets. As we continue to simplify our business operations in international markets addressing country-specific issues, our international business recorded a decline. Our Cipla Global Access business experienced a slower-than-expected offtake on account of lumpiness and will recover in the later part of the financial year.

On the organizational front, we have tried to look at the current focus of our business model and fine tune the geography clusters to bring sharper attention to priority markets. We shall now have the following four geography clusters: North America, Emerging Markets and Europe, South Africa and Sub-Saharan Africa, and India.

On the R&D front, we have acquired the rights of a program from Teva's portfolio.We plan to file this reacquired right as a filing in Q2 and believe that this will be a limited competition product.This product has sales of over $650 million in the US today. Over 200 more R&D projects are currently under development. As disclosed during the last quarterly call, we are on track with our North America Respiratory portfolio development and expect to file one product this year.

On the Regulatory side, we have had several successfully regulatory inspections by the US FDA, MHRA, WHO and others at various manufacturing locations.

To summarize, while we remain focused on streamlining our operations, we have chosen to invest in R&D. We will continue to simplify the way we do business by focusing on a set of core markets and prioritizing our resource allocation to them.

I would like to thank you for your attention and will request the moderator to open the session for Q&A.

**Moderator:** Thank you very much. Ladies and Gentlemen we will now begin the Question-and-Answer Session. We have the first question from the line of Prakash Aggarwal from Axis Capital. Please go ahead.

**Prakash Aggarwal:** A question on actually the export side both from Formulations and API, there has been a significant drop. I understand there was Nexium in Q1 which you mentioned, but on Q-on-Q front when we add US, we should have seen a bump up, right, and even for API we have seen actually Q-on-Q decline.If you could help us understand the two pieces?

**Umang Vohra:** So let us take both, I think on emerging markets we have seen currency depreciation in almost all emerging markets that we operate in. The most important one was Yemen, which we saw in the last quarter; that is a fairly big impact, it is almost a $30 million business for us.So it is a mix of currency, it is a mix of pricing across various markets in the emerging side of the world. We also had a very high base in Q1.So if you begin to plot our Q1 emerging market sale,Q1 was actually one of the highest in the previous year.So it is a base effect along with the issue of

currency depreciation and pricing. On API, there is lumpiness. I think we will probably see the API trajectory recovering in the later half of the year because some of the launches for our partners happen then.

**Prakash Aggarwal:** If you could comment also on the Q-on-Q, not able to see the InvaGen addition here, because largely very small bump up?

**Umang Vohra:** No, I think InvaGenaddition, we only reported about 30 to 40-days last Q4, we reported a full quarter now.So I think there is a fairly significant bump up in InvaGenand I think the US market also there has been a bump up.One thing that you should keep in mind is between Q4 and Q1 of this year there has been a huge delta in Esomeprazole as well.For example, the royalty for Esomeprazolethis quarter is almost negligible and also lower than Q4 of the previous year.

**Prakash Aggarwal:** Two more questions:One is on the acquisition of the product rights Rs.29 crores,I assume it is a Teva one that you mentioned.If you could give some color in terms of monetization?Second, some details on the CAPEX of Rs.350 crores?

**Umang Vohra:** So the product that we have re-acquired is a product that we were developing with Teva, and it was a partnered product, and this product is on account of their divestment, it is an oncology drug, it has sales worth $650 million, we expect this to be a limited competition opportunity because of the technology used in the drug.We arenot really commenting on whether we will be first, second or third in the market and accordingly the value of this will shift.

**Kedar Upadhye:** Capex is about Rs.351 crores, it is a bit higher, we could expect a bit of softening in the balance of the year.

**Prakash Aggarwal:** I understand that but I was just trying to understand which all areas we are investing currently?

**Umang Vohra** This is uniform across manufacturing, this is out of our build out of units in Sikkim for the domestic markets,and it is also about our commissioning a new Oral Solid block in Goa, so it is across manufacturing sites.

**Prakash Aggarwal:** Largely these two?

**Umang Vohra:** Yes, largely these two.

**Prakash Aggarwal:** On the US FDA side, is there any clarity on the InvaGen as well as the Cipla facility which had open 483s?

**Umang Vohra:** InvaGen we have signaled last quarter, is through, there is nothing left on the InvaGenpart from the FDA, we have received what we have to. Indore, we are still waiting, hoping for a favorable outcome sometime in the future.

**Moderator:** Thank you. We have the next question from the line of Anubhav Aggarwal from Credit Suisse. Please go ahead.

**Anubhav Agarwal:** Umang, just one clarity on InvaGensales because this is your first quarter, can you just help us versus the time when we acquired this asset, the sales for about $225 million in your press release, what is the asset annualizing now?

**Kedar Upadhye:** Anubhav, we have booked about $55 million this quarter and that is roughly in line with what we had targeted.

**Anubhav Agarwal:** So has the portfolio seen some kind of erosion because we were at $225 million that was let us say 2-3 quarters back, and has the margins changed, because when we acquired we mentioned the margins of this portfolio was 25% are we still 20% to 25% range on this portfolio?

**Umang Vohra:** Yes, the margin of this business is 25% before R&D, it is roughly in the same range. There is very marginal price erosion on one product which we had mentioned in Q4, that of all the products that we have acquired everything else is priced out except one.So there has been some one new launch there and I think there is some marginal price erosion on account of that, but that is factored into our numbers already.

**Anubhav Agarwal:** Umang, on this European business, you explained last quarter but I am still little confused there, the change in strategy from direct to market to B2B.Two sub parts of question there:What percentage of the European business are you shifting there when you say that we are implementing the strategy in some market?Secondly, what has triggered this -- is it like you could not achieve scale in these markets and therefore DTMmodel is not working?

**Umang Vohra:** So let us go back, I think what we are trying to do is we had set up a European organization which was almost 150 people and scattered across different markets and the objective was that when we get our Respiratory portfolio we will be able to sell it and compete with the likes of GSK, AstraZenecaas well as other large generic companies.So as we began to look at our Respiratory portfolio it also became evident to us that our ability to compete in these markets with the GSKs and the AstraZenecasand all the other large generic companies will have to be market-by-market, it is not pan Europe, so it will have to be in Spain that we compete with them, it will have to be in Italy, it will have to be in Romania because all of these are branded markets, and as a result of that we came to the realization that possibly the ability for one of the other larger players to compete than Cipla competing in these markets is possibly a better outcome in terms of overall share and things like that, because if we have to compete with an AstraZenecaor GSK in Spain, their footprint is going to be always considerably larger than ours. That apart, when we model this out, we came to the conclusion that Europe over the next 2 to 3-years would always be challenged for profitability, which is why we made this decision that we will play a B2B game here and allow our partner to get better commercial outcomes than we can in Europe.

**Anubhav Agarwal:** So what is the plan here -- 150 people that you were planning now is that less than 50 now?

**Umang Vohra:** I cannot guide you whether it is less than 50 or so, but our objective is to considerably shrink this organization by the end of the year, it is not an easy decision for us, but we have made it. Quite a few of the people have already been terminated from the services of the company.

**Anubhav Agarwal:** Just clarity on R&D.Now this quarter we have 6.6%, you have been mentioning for the last two quarters that we are planning like R&D at 8% of the sales, the presentation says that R&D at 7% of the sales and that is in line with financial year target.Is there any change in lowering down R&D for us?

**Umang Vohra:** No, I donot think we are going to lower R&D.The thing with R&D is you can never predict which quarter it is going to be 8% and which quarter it will be 6.5%. Full year we are at the same level,we are not changing our guidance on R&D.

**Anubhav Agarwal:** 8% of sales?

**Umang Vohra:** Yes, around that level.

**Anubhav Agarwal:** Just one more clarity Kedar sir, interest cost has gone down sharply actually; it was Rs.47 crores in March quarter, now it is Rs.31 crores, actually it should have gone up.What is leading to this sharp decline in interest cost?

**Kedar Upadhye:** There has been retiral of some working capital debt, Anubhav, the long term debt continues at the same level

**Anubhav Agarwal:** So this Rs. 31 crores for us is now the base?

**Kedar Upadhye:** More or less, there could always be some fluctuation but more or less.

**Moderator:** We have the next question from the line of Neha Manpuria from JP Morgan. Please go ahead.

**Neha Manpuria:** Sir, on the restructuring, we had also mentioned that we are restructuring our international business, which we will take part in FY17. How far along are we and will that be as disruptive as the Europe restructuring was to our numbers in the fourth quarter?

**Umang Vohra:** No, I think most of the restructuring that we had done, Neha, was already factored in quarter four numbers. We had said that we would restructure or actually pull out of 30-odd markets on the emerging side of the world; I think we have done about 24 or 25 of them already.

**Neha Manpuria:** So, we have already exited those markets in terms of direct presence?

**Umang Vohra:** That is right.

**Neha Manpuria:** And sir, in R&D, on the Respiratory side, we had also indicated potential partnership for certain products in the US. Could we throw some light on the strategy there and also timelines for that if possible?

**Umang Vohra:** We are not providing that commentary as yet, Neha, but over time we will begin to provide that. As of now, we are not providing that commentary.

**Neha Manpuria:** And my last question on India. What was the NLEM impact in this quarter, NLEM, FDC all of that, how much of that actually impacted?And is it fair to assume that some of it will actually flow into second quarter also?

**Umang Vohra:** So, I think the impact of NLEM and FDC will probably flow through all the quarters, not just quarter one.

**Neha Manpuria:** No, I mean, incremental impact.

**Umang Vohra:** So, I think quarter one, we have seen an impact of roughly about Rs. 20 crores to Rs. 25 crores,and we expect that going forward this impact will roughly double in average quarter. So it will be another Rs. 20-odd crores that we could get impacted by in the next quarter.

**Neha Manpuria:** So then sir, on a full year basis, are we still confident of growing this market double-digit or that would seem difficult given these regulatory challenges?

**Umang Vohra:** We will grow higher than market, I think the market prediction is that this rate is at around 10 to 12, so we think we will grow higher than the market.

**Moderator:** Thank you. We have the next question from the line ofNimish Mehta from Research Delta Advisors. Please go ahead.

**Nimish Mehta:** Couple of questions on the US side. We had been supplying this generic Azacitidine to Mylan. So, first of all, wanted your confirmation. And second, has that been an opportunity for us now that Mylan has recently entered, so is that significant ramp up possible, how do you see that?

**Umang Vohra:** So, I am not sure we can speak about partners and their products, but I will just say that irrespective of the partner, Cipla is committed to partnership with any products. So cannot comment on Azacitidine with respect to one partner or the other.

**Nimish Mehta:** Is that an important product and that's what I'm trying to understand?

**Umang Vohra:** I mean, I do not know how to answer it, I think it is an important part of products for several partners that we support.

**Nimish Mehta:** So we will be supplying too many other partners as well?

**Umang Vohra:** Yes, I think we will supply it to any partner that we have to supply it to, but we are not giving any partner level detail on any product.

**Nimish Mehta:** The second is on generic Tamiflu. Are we likely to launch it post the patent expiry, that is post February 2017?

**Umang Vohra:** Cannot comment on it, we know that the market has changed a bit, but we cannot comment on it. Your question is with respect to the US market, right?

**Nimish Mehta:** Right.

**Umang Vohra:** So, we are not commenting on specifics for this.

**Nimish Mehta:** Finally, on the Respiratory side, you have been talking about filing one product, I mean; we have seen clinical trials on Albuterol inhaler. So, is that something that we will expect to be filed first for the US market?

**Umang Vohra:** Yes, it could be.

**Moderator:** Thank you. We have the next question from the line of Abhishek Sharma from IIFL. Please go ahead.

**Abhishek Sharma:** Sir, I just had one question regarding ESOPs, which were issued to Subhanu. Given the fact that he is leaving now what is the status of that? Have they all been vested, are they getting extinguished, how are you treating them?

**Umang Vohra:** So, I am not sure that at this point we will be able to answer, I think it will be in the public domain as and when we do it, as per the contract and as per the Companies Law I think we will disclose it appropriately.

**Alpesh Dalal:** As a general rule we will not disclose emolument details of any of the business.

**Management:** And you will see it in our Annual Report and respective disclosures.

**Moderator:** Thank you. We have the next question from the line of Nitin Agarwal from IDFC Securities. Please go ahead.

**Nitin Agarwal:** Umang, in terms of the strategy of the business going forward, I guess this is a time you've sort playing a role in in the firm. There is obviously a distinct shift towards our focus towards the US at the expense, I mean, over the priority that we were placing on the emerging markets earlier. I mean, are there any other nuances of the strategy that are being sort of fine-tuned as you go forward?

**Umang Vohra:** No, I think Subhanu started the call by articulating that Cipla's strategy three years or four years back was to be a more global one, we are firmly entrenched there. The US is obviously the largest pharma market in the world, so it will get disproportional interest in markets outside

of India. But we are also focusing on deepening some of our markets, so for example, if you noticed in Q4 we said that we will pull out of 30 markets in the emerging side of the world, but there are several markets in the emerging side of the world, South Africa included, where Cipla continues to be number one or number two, and our position is to grow those markets as well. So, resource allocation will be to those markets. Subhanu, do you want to add?

**Subhanu Saxena:** Yes, maybe I will make a couple of comments. The US was always on the radar screen even three years ago, we knew that our position versus our competitors was not where we wanted it to be and it was really waiting for the right opportunity at the right time with the right price, and I think we were very pleased with the acquisition that we made which certainly allowed us to trigger some course correction in terms of focus on the US versus Europe. As I have mentioned in the past, we saw the Europe situation over the last 12 - 18 months, I think given Brexit, maybe our decision is prescient, we do not know. But equally, as I said earlier, there was a very explicit strategy to take back control of our key emerging markets which we did by joint venture establishment, front end and the acquisition in South Africa. And then the commitment to sharpen that focus on those markets. If you look at what the growth drivers are going to be for the Company, it will be India, it will be those key front-ends in emerging markets, and the US clearly is a game changer for the Company, which is why we see a lot of focus on execution of our filings and our pipeline for the US, really building a business that goes towards $1 billion mark. And I think it is very important, but we have now a CEO who has extensive deep US experience in the role. And so I think that is going to allow us a very balanced but much focused approach for the future.

**Nitin Agarwal:** Secondly, Umang, in the other expenses if you account for the charge that you have paid for the product acquisition, I mean, there is like almost Rs.100 crores reduction on a QoQ basis. I mean, so how do we explain this and how should we see the expenses, really model the other expenses going forward?

**Kedar Upadhye:** Nitin, there is a component in other expenses which is variable and subject to excise duty on opening and closing stocks. If you leave that aside, going forward, we may have to spend, we may have to invest in Indian market on the sales and distribution expenses, and R&D is likely to go up a bit. So, I think you could model around this guidance.

**Subhanu Saxena:** So, the only thing I would like to clarify is that the cost of reacquiring the product right, the Rs. 29 crores is actually booked in R&D and not in other expense.

**Moderator:** Thank you. We have the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:** So there have been numerous news over the past several quarters and years that Cipla may actually sell out. So just wanted to hear from you that how do promoters think about the longer-term ownership in Cipla?

**Samina Vaziralli:** Thanks, Sameer. This is basically the commitment and reinforcement of the long-term commitment of the promoter family to Cipla. This is an 80 year legacy and the idea is that we keep this legacy going, and this is the handover to the third generation of the family. And it is my endeavor and hope that I will take this forward in the same way that the family has aspired it to be. The family is completely committed and there is absolutely no prospect of selling.

**Sameer Baisiwala:** And Umang, can you just share some thoughts on the potential 15 new approvals that you talked about for the US in the second half of the year?

**Umang Vohra:** Yes. Sameer, they will start around the end of quarter three and continue through that. These are, out of 15 if I were to say, I would say about we see four or five limited competition opportunities and some of them are markets which have been created with two to three players, some of them are markets where we will be entering along with two to three. So they are all as it stands today, and you know the US market changes minute-by-minute. But of the 15 we are actually counting on four or five limited competition opportunities.

**Sameer Baisiwala:** And Umang, I know you have not been very forthcoming with generic Advair for the US, but I still will try my luck, and I ask this because two US players have already filed the dossiers, equivalent or superior products. So, just wanted to hear from you whatyour roadmap is, what is your broader game plan to take this product into the US?

**Umang Vohra:** So, Sameer, let me answer it by saying that we are going to be interested in this product, it is the largest respiratory product and from our perspective, actually we could see five or six players on this product but we do not see more than five or six. Now when we file, that exact timing I cannot mention, but yes, a product of interest to us. We, as you know, have not started any clinical trial as yet on it.

**Moderator:** Thank you. We have the next question from the line of Surya Patra from Phillip Capital. Please go ahead.

**Surya Patra:** Can you just talk something more on the biosimilar initiative that you are doing here, or taking here in India and the new initiatives that you've taken in South Africa and what is the future goal so far as biosimilars are concerned?

**Umang Vohra:** So, I think our vision for biotech is possibly a little different than some of the others. We are trying to make our biotech journey first hinge on the emerging markets and later on the regulated markets. We are calibrating our investments to this. Our basic thesis is that we believe there is a disruptive technology that can allow us to function at a cost, at a cost where the others would have to possibly exit the market. And we are still validating this, we have announced a new facility in South Africa and the construction of this facility will begin in early 2017. And I think it is still early days for us on this, so we will provide more commentary as we go ahead, about this.

**Surya Patra:** So, most probably it is kind of a no-partnership kind of model that we would be following?

**Umang Vohra:** No, I think we will follow a partnership model, not so much for the emerging markets, because I think the most natural partner for Cipla Biotech will be Cipla, the main entity. And as I mentioned to you, I think one thing is important is that we are going to derisk this investment as we go forward.

**Surya Patra:** And is it possible to talk something on the near-term ARV opportunities for the US market on which possibly weare quite sure of?

**Umang Vohra:** I will just say that most of them, Cipla will hopefully be a player in the US market, for most of the ARV opportunities. And for a quite a few of them we are also locked in with our API with players who may be first or second.

**Surya Patra:** Just one last question. Post this IndAS transition; we are still possibly evaluating the fair value of this acquired asset, InvaGen and Exelan. And after that kind of a fair value assessment, whether the kind of intangible asset or something like that, that will change meaningfully and will have some impact on the profitability or something like that, or what could be the impact post that?

**Kedar Upadhye:** Surya, for an acquisition of this scale, typically the literature allows you to do a purchase price allocation within a year from the date of acquisition. So we are in the midst of that exercise. You are right, in this quarter we have not booked any amortization on account of the acquisition because it is gone in goodwill as per Indian GAAP. We will do the purchase price allocation accounting; there will be an amortization charge in the subsequent quarters. There is no way to quantify it now, but there will be incremental amortization because of InvaGen in the subsequent quarters.

**Moderator:** Thank you. Our next question is from the line of Ritika Jalan from Narnolia Securities Limited. Please go ahead.

**Ritika Jalan:** How many ANDAs are pending approval with the US FDA, including our own and partner filing?

**Kedar Upadhye:** Ritika, we will give you the exact number, there have been some filings this quarter as well, so just give us a minute we are just pulling out the exact number for you. So, I think what we have is over 60 products commercialized and I think what is pending is roughly about 40 plus.

**Ritika Jalan:** And how many of these ANDAs are filed from Indore?

**Umang Vohra:** I am not sure we are going to give that product level detail at this point in time. But Indore is a newer site comparatively for us, so a lot of our filings may not be from Indore as well.

**Ritika Jalan:** And on the CAPEX side, what we are looking for the next year?

**Kedar Upadhye:** So it could be around Rs. 1,000 crores to Rs. 1,100 crores, but we could refine these numbers as we go along.

**Ritika Jalan:** And how do you see the margin growth in financial year 2017?

**Umang Vohra:** I am not sure we are giving that level of guidance this early, we will always provide guidance when we finish the year, but not at this point in time.

**Ritika Jalan:** What is your revenue and tax guidance going ahead?

**Umang Vohra:** For which year? This year we have already provided, can I request that you see what we have given in quarter four, please?

**Ritika Jalan:** Yes. So, you have maintained the same guidance?

**Umang Vohra:** Yes, at this point we are pretty much sticking to the same.

**Ritika Jalan:** And what is your plan for acquisition going ahead?

**Kedar Upadhye:** So, we do not comment on future acquisitions, Ritika.

**Moderator:** Thank you. We have the next question from the line of Gaurav Singh from Natverlal & Sons. Please go ahead.

**Gaurav Singh:** First question is, what is the update on expected respiratory launch in the United States? And my second question is pertaining to InvaGen. I believe InvaGen has few FTFs. Can you throw some light on the expected launch of those products?

**Umang Vohra:** Let me answer your second question first, I think InvaGen's FTFs are all around the period of 2018 and 2019 onwards. And your first question was about the respiratory product launch in United States?

**Gaurav Singh:** Yes.

**Umang Vohra:** The first filing will happen only later this year.

**Moderator:** Thank you. We have the next question from the line of Surjit Palfrom Prabhudas Lilladher. Please go ahead.

**Surjit Pal:** Just one question. We have been hearing this respiratory opportunity in UK. What is the current status and what is your expectation?

**Umang Vohra:** We are still waiting for the agency; we have been in dialogue with them.

**Subhanu Saxena:** Yes, we don’thavespecifics on the timelines in Europe, but in terms of data provision and where we need it to be, we are very much in line with our expectations.

**Surjit Pal:** See, previously it wasaround 18 months’ time period was given, I mean, management at that point of time was pretty positive on that outcome. So, where are things actually stuck? I mean, from the management perspective, where things actually stuck?And when do you think out of

your so many years of experience with the regulator, when do you think that could be a possibility as an interchangeable product, not as the non-interchangeable?

**Umang Vohra:** I do not think we can comment on whether we think we will have an interchangeable product or not, that is really the agency's decision and prerogative. But all I can say is that we are working expeditiously with the agency and like we guided last time, we are hoping that we could have a favorable outcome. But in the end, this is finally the agency's call on when we get an approval and if and when we get.

**Subhanu Saxena:** So we are certainly towards the latter part of the regulatory process and not at the beginning.

**Moderator:** Thank you. We have the next question from the line of Deep Master from ENAM Holdings. Please go ahead.

**Deep Master:** So in most of Europe you're thinking about doing a B2B model. Do you have the same strategy in the UK as well?

**Umang Vohra:** Yes, I think the UK by and large even if it is not B2B, the DTM almost functions like a key account model, so you would not have a very huge build out in the UK for a DTM function.

**Deep Master:** But the margins look more like a B2C business over there than look like a B2B business.

**Umang Vohra:** The margins in the UK today look more like a B2C business and this is the same for the UK market whether you are in respiratory or anywhere else.

**Deep Master:** And just wanted to clarify, in Europe you hope to get direct cost breakeven by the end of the year, right?

**Umang Vohra:** By quarter four, yes.

**Deep Master:** On the run rate basis?

**Umang Vohra:** Yes, run rate basis.

**Deep Master:** And just on the US, so your base business has grown 30%. This doesnot include the Nexium royalty this quarter as well, right?

**Kedar Upadhye:** Yes, we clarified this quarter royalty was negligible.

**Umang Vohra:** We have negligible royalty.

**Deep Master:** And could you give some qualitative assessment of how InvaGen has performed on a year-on-year basis?

**Umang Vohra:** We can send it to you offline, but we do not have that right now and I do not think we are signaling InvaGen. All we are saying is we are on track with what we had hoped for InvaGen to do in this quarter.

**Moderator:** Thank you. We have the next question from the line ofSaion Mukherjeefrom Nomura. Please go ahead.

**Saion Mukherjee:** Just a couple of questions from my side. First on India, Cipla has a relatively large presence on the non-promoted segment. Do you see any regulatory risk in terms of containing trade margins there? And is there a backup plan on that?

**Umang Vohra:** So, this risk, Saion, is already in public domain. So there is a risk of course. And we are ready with a backup plan, but as we speak, things are evolving on both the regulatory front as well as… so we do have a backup plan for this as well.

**Saion Mukherjee:** And there is nothing in the horizon as of now as you can see?

**Umang Vohra:** So, we are aware that there was a draft put out by the government, but other than that, as of now there is nothing else.

**Saion Mukherjee:** And on the US business, have you disclosed the acquisition cost for the Teva portfolio?

**Umang Vohra:** Yes, so I think it is less than 5 million overall, the bigger one is the product we acquired back.

**Saion Mukherjee:** And in terms of the US filing, I think you had mentioned about ARV, oncology, respiratory as the key segments. So how should we think about filing and launches on these segments over the next three years?

**Umang Vohra:** So, I think filing-wise, Saion, the focus will be probably more oncology and respiratory, respiratory of course would be fewer in number because each asset is a subject in itself. Launches will be more around oncology and ARV at this point in time and also some other one or two odd respiratory products, one or two odd products in other therapeutic areas.

**Saion Mukherjee:** Actually I understand InvaGen has a Sevelamer filing. Is there any progress there? Do you have any visibility?

**Kedar Upadhye:** Saion, we cannot comment on products.

**Moderator:** Thank you. We have the next question from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

**Sameer Baisiwala:** Actually my question was also same as the previous one, that for Renagel, Renvela, are they part of your four to five niche launches that you have planned end of this year?

**Umang Vohra:** Sameer, could be, depends on approval.

**Sameer Baisiwala:** And the other question is about this product that we are taking back from Teva. What is the potential launch timelines for this? Is this an off-patent drug with some generics already in or would it go through litigation route?

**Umang Vohra:** So this is probably going to go through litigation route, but I think the patent estate for this expires sometime around the 20 or just beyond the 20 timeframe. I do not think there is any generics in the market as of now in it.

**Moderator:** Thank you very much. Ladies and Gentlemen, due to time constraint that was our last question. I would now like to hand the floor over to the management for closing comments. Thank you and over to you, sir.

**Subhanu Saxena:** So, thank you very much for your questions. I think, if you look at the flavor of the questions and the results, they are very much in line with the guidance that we have given. We have all the key building blocks in place for the next phase of growth for the Company. Very sharp focus on US, India and key front ends and continuing to keep high level of investments in R&D to build the future pipeline. We have had a very smooth planned transition on the management side and you have got the commitment of the promoter family to ensure that we continue to build this company for the next 80 years. So with that, I thank you very much. And wish you all a very pleasant evening. Thank you very much.

**Moderator:** Thank you very much. Ladies and Gentlemen, on behalf of Kotak Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.