Ranbaxy Laboratories Limited

Post Results Conference Call for Quarter 1, 2012

May 9th, 2012

SPEAKERS: **Umang Khurana, Head- Investor Relations**
Arun Sawhney, CEO & MD
Indrajit Banerjee, President & CFO

Moderator: Very good afternoon, ladies and gentlemen. I am Souradeep Sarkar, the moderator for this call. Thank you for standing by and welcome to the Ranbaxy Post Quarter 1 2012 Results Conference Call. For the duration of presentation, all participants' line will be in the listen-only mode, and there will be a presentation followed by the Question & Answer session. I would like now hand the conference to Mr. Umang Khurana from Ranbaxy. Over to you Sir.

Umang Khurana: Thank you. Hello everyone and welcome to the Ranbaxy Post Result Conference Call for Quarter 1, 2012. That is the quarter January to March 2012. Earlier in the day the company issued a Press release detailing the financial results for the quarter. The press release and the presentation that the management will discuss with you now will also be uploaded on the company website.

Today on the call with us we have Mr. Arun Sawhney, CEO and Managing Director of Ranbaxy who will be the first speaker. He will take us through the highlights of the results for the quarter. We will have Mr. Indrajit Banerjee, President and CFO of Ranbaxy. He will be the next speaker and he will detail the financial performance of the company for the quarter.

Post the presentation we will be open for taking questions. We would like to complete the call by 4:30 P.M. Indian standard time. Over to you Mr. Sawhney.

Mr. Arun Sawhney: Thank you Umang. Good day everyone and thank you for joining us on the investor call to discuss Ranbaxy's Quarter 1, 2012 Results.

Sales in the first quarter 2012 was $736 million, a robust 55% over the corresponding quarter in 2011. The higher performance was led by a healthy improvement in base business and continued strong sales of exclusivity product. EBITDA margins in the first quarter were at 27% up from 20% in sales in Q1 2011. The improvement in sales and focuss on cost optimization led to the improvement in margins during the quarter.

We are proud to have launched the first new drug from India: Synriam. Synriam is used for treatment of Plasmodium falciparum malaria, showcases the R&D strength and capabilities of not only Ranbaxy but also all of our Indian scientists.

On our part, we at Ranbaxy are humbled by our ongoing support and have dedicated this first new drug from Ranbaxy to the nation. Developed markets contributed the larger portion of the total sales for the quarter aided by exclusivity sales as mentioned earlier. However, when we view the base business sales, that is excluding the FTF, emerging markets contributed over 60% of the sales. This is in line with our strategic direction of following growth in the emerging markets.

Improvement in the India business continued over the earlier quarters returning over 10% growth in the quarter when compared to the corresponding quarter of the previous year. Consumer Healthcare, the OTC part of Ranbaxy business grew at a strong 20% plus. APAC sales growth was helped by the growth of business in Australia.

As regards to the ongoing exclusivity sales in the US, the performance of both the exclusivity products was better than competition. West Europe sales for the quarter also improved over the corresponding quarter of the previous year.

Now, let us move on to discuss functional performance. The new dosage form facility at Mohali began exports of Atorvastatin dosage form to the USA. This is a significant development for Ranbaxy for two reasons. One, this is the first supply to the USA from any Indian facility of Ranbaxy since the regulatory challenges began in September 2008.

Second, as an alternate supply source based out-of-the-home country, India will support volumes, post exclusivity period. The Mohali manufacturing facility is an OSD facility planned to supply to multiple global markets. With a focus in growth, Ranbaxy will not be constrainted to invest especially with regards to its plan to support emerging market opportunities.

In this direction the company has committed to invest and grow in Malaysia. Also plans are afoot to support our existing manufacturing base in Nigeria with a new greenfield facility.

On the R&D front the company made over 53 dosage form filing and received approvals for 20 during the quarter.

Moving ahead with the hybrid business model between Ranbaxy and Daiichi Sankyo, Ranbaxy will market Cravit an innovative product from Daiichi Sankyo in Malaysia. This is an interesting dimension of the synergies with Daiichi Sankyo that gives Ranbaxy an opportunity to promote its own products as well, in an innovative market, in a country where we have a relatively stronger presence. With an emphasis on branded generics products and creating brands in various markets, such opportunities give the Ranbaxy team their explicit experience of promoting not just the generic but also the innovative products other than enlarging market coverage to hither to unattended or inaccessible customers.

With regard to consent decree that we had signed with the US authorities at the end of the previous year we are progressing as per plan. On regulatory inspections front, during the quarter ten facilities were inspected by International Regulatory Agencies.

Moving on to the derivatives position, the total leverage position at the end of quarter was $1.5 billion down from $1.62 billion at the end of 2011. On an average $40 million worth of derivatives will mature every month. You will notice when Indrajit, my colleague and CFO takes up the financials, the impact of the currency volatility on various derivatives valuation.

Total debt for the quarter were $815 million with the higher sales contribution from exclusivities. Cash position improved substantially during the quarter leading to net debt of $44 million down from $267 million at the end of previous year.

Now, let us consider the results for the quarter by geography. As I mentioned earlier base business growth and strong exclusivity sales helped achieved a growth of

55% in sales and ended 31st March 2012 at $736 million from $474 million in Q1 of 2011.

Moving on to North America, sales in North America were up 145% due to large contribution from the growth in the USA. Sales in the USA for the quarter were $401 million supported by strong base business and continued exclusivity sales for Atorvastatin and Amlodipine plus Atorvastatin. Ranbaxy's Atorvastatin now commands a dominating 47% market share ahead of both the innovator and the authorized generics. In Amlodipine plus Atorvastatin i.e. Caduet, there too where we launched as an AG, Ranbaxy has the largest market share.

Now, we move on to India. In India region, sales for the quarter were Rs. 500 crores about $99 million, a growth of 13% in rupee terms over corresponding quarter of previous year. Performance has started to improve in the home country as we work towards addressing the structural challenges the company faced in second half of 2011. Of this sales for the consumer healthcare division for the quarter continued to return strong growth as 20% plus with sales of Rs. 73 crores or $15 million over the corresponding quarter of previous year.

The weaker Indian rupee versus Q1 2011 had an adverse impact in the sales in dollar terms while Ranbaxy portfolio has a larger portion of acute and antibiotics while we are making efforts towards participating in the growth of chronic therapy as well.

Moving on to CIS. Further on emerging market and to support the internal restructuring whereby the East European market and West European market now report into different regional management which addresses the different business models in the region. The aspects that stood out in the East Europe plus the CIS region was the depreciation of various currencies in the market as compared to the US dollar.

When viewed on local currency terms, sales in the regions actually reflected a growth from the corrensponding quarters of the previous year. Sales in East Europe plus CIS region were $58 million. Of this Romania where Terapia is the leader in generics plus OTC space, sales were around

$25 million. In Russia too Ranbaxy continued to be the leading player in its represented market with consistent sales of $18 million.

Now, we move on to West Europe. Sales in West Europe were $43 million dollars, a growth of 11% over Q1 2011. Growth in the region came primarily on account of launch of Atorvastatin in some of the European markets during the quarter. Italy, where the government liberalized pharma policies and Ranbaxy promoted Daiichi Sankyo brands. France too had higher sales. In all, over 85% of the sale in the region was contributed by the top four markets for Ranbaxy including France, Germany, UK and Italy.

Sales in the APAC region were $31 million dollars for the quarter. This reflects a smart growth of almost 60% over the corresponding quarter of the previous year. Growth in the region was contributed primarily by Australia and Malaysia. Australia growth was supported by Atorvastatin supplies in the country, while Malaysia and Myanmar grew as well. With regards to Malaysia, I mentioned earlier, the launched of Cravit in Malaysia during the quarter.

Moving on to Africa, sales in Africa were $45 million. The dollar sales were impacted by weakening of all major currencies in the region including the South African ZAR, Nigerian Nair and Egyptian Pound. Further to what I have mentioned in the earlier quarter, we have now established a manufacturing base in Morocco to address the billion dollar pharma market there. The investment in Nigeria manufacturing has already been mentioned. We should have our new manufacturing base in the country by 2013. As we move forward Egypt is the link where we need to strengthen and augment our business coverage on the continent.

Moving on to Latin America. In the LatAm region Ranbaxy sales were lower at $10 million for the quarter. The slowdown was impacted by the continued transient supply disruptions. We are more confident with the time that the internal supply related issues may be sorted out during the year and we could have stronger sales coming from the region.

In case of API, the sales for API and others for first quarter 2012 were at $34 million. Ranbaxy's focus for API is on profitability. On this account we are consolidating our presence and customer-base. With this we can grow a sustainable, profitable business through our API business as well. Indrajit will now take you through the financial performance for the quarter. Over to you Indrajit.

Indrajit Banerjee: Thank you. Good day to everyone on the call. I will take you through the financials for the quarter ended March 31st, 2012.

Sales shows a growth of 55% in dollar terms as Arun had mentioned which in rupee term however was up to as much as 73% as evident from the announced results today. And this is primarily on account of higher sales of FTF and also the higher sales of other base business products. The geography-wise sales has already been covered in the earlier part of the presentation.

There is an increase of 26% in other operating income. This is mainly on account of export incentives and certain changes in the presentation as per the revised schedule 6 format for foreign exchange gain on assets and liabilities to be stated as a part of other operating income where there is an income.

Employee cost has increased by 13% from Rs. 417 crores to Rs. 470 crores on account of regular annual salary division. Depreciation, amortization and impairment has a nominal increase from Rs. 74 crores to Rs. 80 crores. Higher depreciation is on account of new CapEx spend getting capitalized during the current period.

Increase in other expenses as percentage of sales, 38% in Quarter 1 versus 29% in the previous corresponding quarter is due to exceptional provisions on regarding claims and contractual payments that we had picked up in Quarter 1 of this year. On a like-to-like basis without FTF and without this exceptional provision the other expense as percentage of sales has remained more or less consistent.

Other income has increased from Rs. 69 crores to Rs. 136.6 crores mainly on account of higher foreign exchange gains on loans in the current quarter. There is a gain of Rs. 75

crores in this quarter against a gain of Rs. 14 crores in the corresponding quarter of 2011. This is on account of strengthening of the rupee by approximately Rs. 2.03 per dollar in this quarter versus the end of the previous quarter. The exchange rate at the end of the current period was Rs. 51.22 per dollar versus Rs. 53.25 per dollar at the end of December. Finance cost has reduced from Rs. 39 crores in Quarter 1 of the previous year to Rs. 18.7 crores in the current quarter.

As per the revised Schedule 6 presentation as explained above, the finance cost has been restated to comply with the revised format. Had the earlier format for classification continued where foreign gains on loans would have been continued to have been shown as a part of other income, the finance cost would have been at about Rs. 37.7 crores in the current quarter against the similar amount of Rs. 37 crore in the corresponding quarter of 2011.

ForEx gain of Rs. 344.7 crores has been recorded in the current quarter on account of the reevaluation of the foreign currency option derivatives and this has happened on account of the strengthening rupee and as a consequence of the mark-to-mark valuation of the options that are currently outstanding. This is the amount that has gone into the P&L account this quarter.

Tax for the current year works out about 10% you will notice, as against the much higher percentage in the previous year. Now, this is mainly on account of the fact that our financial year is a calender year, however, we pay taxes according to the April to March year and as a result of that we had losses booked in the P&L in the previous nine months of the current fiscal year and that has led to a lower than normal charge on account of tax. But going forward we should be closer to the MAT rate.

You would observe that the operational EBT and the EBITDA numbers show significant increase over the previous year. As was mentioned earlier, this is primarily because of higher FTF sales during the quarter, better margins on the base business and of course the control over expenses that has been instituted in the recent months. EBITDA, therefore, worked out to 27% in dollar terms if you look at it or if you look at the rupee numbers it works out to a 31%. EBT was 38% in rupee terms versus 18% in the corresponding quarter of the previous year. With that I hand it back to Umang.

Umang Khurana: Thank you so much, Sir. We could now open the table for Questions and Answers.

Moderator: Thank you so much Mr. Khurana and all the panelists. With this we are going to start the Q&A interactive session. So, I would request all attendees and the participants, if you wish to ask any question please press "0" "1" on your telephone keypad and wait for your name to be announced. I would request all the attendees and the participants' if you wish to ask any question please press "0", "1" on your telephone keypad and wait for your name to be announced. The first question is from Mr. Ravi Agarwal from Standard Chartered Securities. Mr. Agarwal you can go ahead and ask your question please.

Ravi Agarwal: Yes. Hi, good afternoon. Thanks for taking my question. My first question is just on the base business. If I look at it from Q4 to say Q1 how does one basically look at the base business? Have the overall margins in this business gone up, come down and more importantly what is the outlook for this for the full year as compared to Q4 last year?

Arun Sawhney: Yes. There is an improvement in the base business margins also. We are not giving any guidance as to what it could be for the full year. But, yes, the base business profitibility in the current year would be much better than the base business profitibility on the previous year. There would be an improvement and that should be reflected in the overall EBITDA figures too.

Ravi Agarwal: And that would be in spite of, I am presuming, any additional cost which might come from implementing a consent decree?

Arun Sawhney: The cost relating the consent decree we would be in a better provision to make an assessment by Q3 in my estimate. Till that time we should consider that as the revenue expenditure that we should be able to take in our stride.

Ravi Agarwal: Okay. The second question is on the volatility as far as the raw material cost are concerned, again, from Q4 to now the number seems to be fluctuating quite significantly even if you take the inventory write offs which were there in Q4 last year. Any specific reasons for this and what could be a number to look at, you know, on a steady state basis?

Indrajit Banerjee: The question is not very clear Mr. Agarwal but I guess the way to look at it is if you are looking at cost of material if you take the three line items which are there and added up together, you will find that in the present quarter our cost was about 24%, raw material cost relative to the sales. And if you were to compare to the previous year it's 35% but that's a little unusual made especially because of the fact that we had significant FTFs in the current quarter.

Ravi Agarwal: Yes. I am actually comparing it more to Q4 because considering that most of the revenues are almost similar on Q4 to Q1 basis and I still see that the raw material to sales have actually improved almost by 500 basis points. Even if you do the inventory adjustments in Q4 which we had, there's still an improvement of around 300 odd basis points. So, I am just wondering what explains this.

Indrajeet Banerjee: Yes, you know, the total amount of FTFs, the proportion of FTFs in this quarter and the previous quarter is also not the same. That would also have an influence on the percentage but I guess it is sufficient for us to say that on a ballpark basis there is some two percentage points improvement in the raw material cost generally speaking if you were to even ignore the FTF factor. But this is a very rough estimate I am giving but I think it is fair to take that into account.

Ravi Agarwal: And that would be sustainable I would say. And two, very quickly housekeeping questions. One is have you realized assets loss or gains in the quarter please and ...?

Indrajeet Banerjee: I think it's appropriate for us to clarify this. Let me just tell you the numbers. The foreign exchange arising as a result of the change in the assets and liabilities position is about Rs. 190 million which has got into the operating income line. There is an exchange gain-loss of Rs. 759 million which is stated there. The Schedule 6 has made it a requirement that when you have got a foreign currency loans which gives you foreign currency interest and if in that quarter you have a gain on the foreign exchange revaluation of those loans then you apply a part of that gain to reducing the cost of interest. It goes just the other way around if you were to have a loss, then what schedule requires is that you add to the foreign exchange cost interest which equates it to a rupee interest cost.

That is not a situation in this quarter. In this quarter it is a gain situation and therefore there is a Rs. 190 million worth of foreign exchange gain have gone into reducing the interest line, Rs. 190 million. So, these are the three items which together account for all the foreign exchange gain and losses other than what is for the derivatives. The derivative figure is separately there in the account.

Ravi Agarwal: Not sure I understood as well, I will take it from Umang. But just my final question on the Consumer Health business. You said 73 crores and then you said 53 million is that correct…something which I missed here?

Arun Sawhney: We said 20% plus, 73 crores.

Ravi Agarwal: And the 73 crores is the revenues for the quarter.

Arun Sawhney: Yes. And we said $15 million.

Ravi Agarwal: ` 51 million would be more than 73 crores....15...

Arun Sawhney: 15.

Ravi Agarwal: Okay. Thank you so much.

Umang Khurana: Thank you Ravi. May I request all participants to limit their questions to two. Let's go on please.

Moderator: Thank you so much. Thank you Mr. Agarwal. Well, here comes the next question from Mr. Girish Bakhru from HSBC. Mr. Bakhru you can go and ask your question please.

Girish Bakhru: Hi. Just wanted some commentary on Provigil given that earlier we had settlement, agreement with the innovators. So, is there any possibility of launch for Provigil in near term and what has delayed this launch?

Indrajit Banerjee: Which product are you talking?

Girish Bakhru: The Provigil, Modafinil.

Arun Sawhney: No, we have not spoken about Modafinil in the past.

Girish Bakhru: No. As per the settlement, agreement we would have been first-to-file in Provigil as well, right, with Teva and Mylan?

Arun Sawhney: No, I don't think in the past we had given any guidance and nor would we be giving any guidance on Provigil.

Girish Bakhru: Okay. So, just to get a sense on the remaining or so to say the first-to-file opportunity this year if you could give us some colour on what products might be there after Lipitor?

Arun Sawhney: Well, I think we will as the patent expiries come closer. At that point in time I think you will get better clarity. Obviously there's a reason why all this has kept confidential in the consent decree which is now a public document. So, we will honour the compulsions of the consent decree and leave it there.

Girish Bakhru: Alright. Just second one on this raw material, just to get more clearer sense is there any impact of currency that might be there?

Indrajit Banerjee: On the raw material?

Girish Bakhru: Yes. Given that raw material has declined significantly Q-on-Q.

Indrajit Banerjee: It will be a function of many items, many things there which would be, yes, in respect of imported raw materials, the imported raw material it would but it would have an impact in various ways. It is difficult to isolate exactly what reason this is for but in general I think it is best to say that it has improved because of the products mix, because of the types of products being sold and various other things. And, of course, exchange rate affects both the sales revenue as well as the cost. So, it affects in both directions but it is difficult to isolate.

Girish Bakhru: Any related gain due to trade that is 75 crores that you are booking another income, right? There is no other gain that is sitting above EBITDA line.

Indrajit Banerjee: 75 crores is on account of exchange gain on loans. That's got nothing to do with raw material.

Girish Bakhru: Okay, that's on loans. So, above EBITDA line ...

Indrajit Banerjee: Above EBITDA line there is a figure of Rs. 190 million. But that is mostly on receivables and payables.

Girish Bakhru: Lastly, if I may, what's the CapEx guidance for this year?

Indrajit Bakhru: I do not think we have given a CapEx guidance as yet. We have not given a CAPEX guidance for this current year but it is likely to be higher than the previous year. But that is noted. I do not think we have given a major guidance on this.

Girish Bakhru: Alright. I will join back the queue.

Moderator: Thank you Mr. Bakhru. Well, the next question is from Mr. Surya Patra from Systematix Shares & Stocks. Mr. Patra you can go ahead and ask your question please.

Surya Patra: Yes, thanks for taking my question, Sir. Just wanted to understand what is the current utilization of this diverse and Dewas and Paonta facility, if it is running, if we are currently catering to other international market like US market?

Arun Sawhney: Both the facilities Paonta and Dewas are catering to all the markets other than US.

Surya Patra: What is the utilization level currently that should be sir?

Arun Sawhney: I think fairly interesting now. Excepting for certain delegated blocks like Semi-Synthetic Penicillin because you cannot produce any other products there other than Penicillin. So, besides the Penicillin and Cephalosporin blocks we do not have any issue on the capacity utilization today.

Surya Patra: So, is it fair to assume like a 50% sort of utilization that would be there in both the facilities?

Arun Sawhney: Other than the Semi-Synthetic Penicillin and Cephalosporin it should be more than that.

Surya Patra: Okay. And are we sending Atorva to the other markets from Mohali or it is from the Dewas, Poanta or any other plant?

Arun Sawhney: Lots are there from multiple facilities and we do not disclose from which facility we are catering to which market but you are right it is from multiple facilities.

Surya Patra: Okay. Going forward post possibly the exclusivity, this Mohali facility would entirely be catering to the US requirement or how is it sir?

Arun Sawhney: Sorry can you repeat your question?

Surya Patra: After this expiry of this exclusivity on Atorva your Mohali facility would be catering to the entire US requirement or how is it?

Arun Sawhney: That I have already mentioned in my address earlier that Mohali is a facility for multiple geographies.

Surya Patra: One more. What is the kind of a normalized margin one should expect post this Atorva exclusivity expiry, Sir?

Arun Sawhney: This is propriety information. We will not reveal. We are not in a position to reveal propriety information.

Surya Patra: Okay. Should that be the...

Umang Khurana: Surya, may we take on the other questions as well please. Let's limit our questions to two. You have the choice to come back by the time we end here. Thank you.

Surya Patra: Okay. Thanks.

Moderator: Thank you Mr. Patra. Well the next question is from Mr. Amit Shah from Motila Oswal. Mr. Shah you can go ahead and ask your question please.

Amit Shah: Yes. Hi, thanks. Just couple of questions. Sir, just want your outlook on the Indian business. For the last couple of years Ranbaxy has been underperforming the overall markets and it is been enough time that Operation Viraat has started. So when do we see astrong growth in domestic formulation business for Ranbaxy?

Arun Sawhney: Mr. Shah, you are right. Because of the segments where we are dominant. Ranbaxy has been very dominant in the anti-infective

Amit Shah: Right.

Arun Sawhney: And both the segments did not do well as in the market itself and as a result Ranbaxy did not do well as compared to the other peers in the industry. But I am happy to share with you that in my address and also in the slides that you would have seen that the primary sales in the first quarter of 2012, a healthy 13% up compared to the same quarter last year. And especially when the market has grown by around 14%, I think we are doing a good catch up and we should be doing better in the market in the coming quarters.

Amit Shah: The second question, Sir, you mentioned about expenditure related to the signing of consent decree. So, could you just quantify that amount, I mean, what could be the expenditure related to signing of consent decree for next two years or so?

Arun Sawhney: Like I said earlier, consults that we are not in a position to quantify the expenditure right now. We have already finalized our consultants. They should be visiting us within Q2 and once they have done their baseline work they will tell us what all needs to be done at our end if at all and only then we will be in a positon to make a fair estimate as to how much all that remedial measures will cost us additionally. At the moment it would be a pure speculation which I want to avoid.

Amit Shah: That is all from my side.

Arun Sawhney: Thank you.

Moderator: Thank you, Mr. Shah. Well, here comes the next question from Mr. Bino Pathiparampil from IIFL. Mr. Pathiparampil, you can go ahead and ask your question please.

Bino Pathiparampil: Hi. This was discussed before, sorry. But there is still some confusion. The 190 million number that you said in ForEx is included in interest cost or in other operating income?

Indrajit Banerjee: Now, see there is one finance cost of 190 million which is already there, right? If you look at the interest expense line you will figure 186, right? And that 186 includes 190 credited on account of foreign exchange gain on loans. That is the one. The other one is if you look at the 914 figure which is there in other operating income that 914 is after taking about taking 191 million rupees on account of operational gains.

Bino Pathiparampil: Okay. So both are 190, 191, okay. That is why the confusion came. Okay, Arun would you be able to give some colour of how the Atorva market is shaping up? What is the kind of price erosion you are seeing right now and do you expect this kind of upside to continue into next part of next quarter as well?

Arun Sawhney: Yes, I think as a molecule, it is doing well and I think there is going to be volume expansion in case of Atorvastatin either because of increased use because of affordability or I think it may take some share of some other statin. But, I am definitely expecting volume expansion in Atorvastatin in the US. The price erosion, well, I think, you can safely say today would be somewhere between 60% and 70% at 181 days, I think it's difficult to say today what the pricing would be. But like I have mentioned also in one of my past calls that we are better placed because of our vertical integration to deal with any competitive situation. And lastly, we expect Ranbaxy will remain leader in Atorvastatin market share in the US.

Bino Pathiparampil: Great. Just a clarification on the earlier question, you are removing that 191 million still we have about us 70 crores of plus of other operating income. What is it mainly consist of?

Indrajit Banerjee: It is mostly to do with export incentives.

Bino Pathiparampil: Okay, great. Thanks. I will join by the queue.

Moderator: Thank you Sir. Before we move on to the next question I would request once again to all the attendees, if you wish to ask any question please press "0" "1" on your telephone keypad and wait for your name to be announced. Well, here comes the next question from Mr. Nimish Mehta from MP Advisors. Mr. Mehta you can go ahead and ask your questions please.

Nimish Mehta: Yes. Thanks for taking my question. Sir, can you tell us what is the exact amount of payment that we have made to Teva as related to the...?

Arun Sawhney: We are bound at certain confidentiality agreement. We cannot violate like that. So, sorry, we cannot provide the number.

Nimish Mehta: Okay. Based on the indication you provided about the other expenses on a normalized rate, I mean, there is a feeling that, you know, the other expenses excluding the Teva payment is still very high in comparision to the other normalized quarters. So, can you throw some light on that or am I missing something?

Indrajit Banerjee: Well, I mean, you have to take into account the normal level of activities as well but we will not be in a positon to give you a break-up of that expense because if we can break up of that expense you will be able to figure out what the other item of expenses. So, I think, just allow us to, for the time being, as long as the contractual payments are there, we would not be in a position to give you a picture of that expense really.

Nimish Mehta: But, is it fair to say that excluding that the Teva payment, other expenses have drastically gone up and if yes then what could be the reason? I am asking ex-Teva payment sir.

Indrajit Banerjee: I do not think that we can surmise that really.

Nimish Mehta: Okay, fine. The next question is actually...yes, sorry?

Indrajit Banerjee: In fact, I would think that the expenses level is actually lower if you relate it to the appropriate sales, it would be lower than what it was in the previous corresponding quarters of the previous year. It would be lower, this particular item of expense. So, I do not think it is fair to say that it has gone up now.

Nimish Mehta: Okay. The Teva related payment would be kind of the same as what we have seen in fourth quarter last year, right? I mean, that's...

Indrajit Banerjee: I am sorry but we would not be in a positon to give you any insight into that. We would be violating our terms of agreement.

Nimish Mehta: Okay, fair enough. And, just wanted your thought on the likelihood of Lipitor becoming OTC in US, do you see any of those chances happening in the near future?

Arun Sawhney: If you are talking near future…it makes three months or so...

Nimish Mehta: No, no next twelve months.

Arun Sawhney: What really cannot say, if it happens we will be prepared for. Let us put it this way. If it happens we will be prepared for it. But I am not sure whether that will happen.

Nimish Mehta: Okay. Okay fair enough. Thank you very much.

Moderator: Thank you Mr. Mehta. Well, here comes the next question from Mr. Sonal Gupta from UBS.

Sonal Gupta: Thanks for taking my question. Just a couple of question. One was on the CapEx, you announced setting up plants in Morocco and Malaysia. Is this driven by a regulatory requirements for those countries or why are we setting up plants in these countries?.

Arun Sawhney: Why, I think it is the company's strategy that we will be consolidating our position in the emerging markets. And we have selected certain key emerging markets and in Africa, the big five are South Africa, Egypt, Morocco, Tunisia and Algeria. And we are making on ground presence in at least South Africa we already have, Egypt, Morocco. So, only Tunisia and Algeria will be left. But, yes, if these are the important markets on the continent of Africa and emerging market is our story it's important for us to be present there in some respectable measure. That's what is behind setting up of operations there.

Sonal Gupta: But, you cannot really export from India, I mean, is that not possible, feasible scenario?

Arun Sawhney: These are strategic decision. There is a purpose to which why we are doing that.

Sonal Gupta: But this is not driven by any regulatory requirement, sorry?

Arun Sawhney: It could be.

Sonal Gupta: And, again from Malaysia it is the same thing?

Arun Sawhney: Malaysia also. I think we cannot just keep on, you know, growing the plant and manufacturing activities only in India. But there are certain strategic locations where we will have to take decisions, which are those locations we want to grow and we had chosen Malaysia to be able to come because being present there for so many years has encouraged us. It is a good place to invest further.

Sonal Gupta: Okay. Could you give us the corresponding number for, now that you have restructured the business, Russia plus CEE for the whole of last year?

Arun Sawhney: I think if you can take it from Umang later, I do not have it pretty much in front of me. For last year, you can take it from Umang.

Sonal Gupta: Last call you talked about the Mexico business getting transferred to Daiichi. So, is there any further clarity on the LatAm business or what exactly is going to happen?

Arun Sawhney: I do not think there is any clarity or that we have to offer on LatAm. On Mexico, yes, it is transferred to Daiichi Sankyo. When we say that it's transferred to Daiichi Sankyo it means that Daiichi Sankyo will front end the business. Ranbaxy will still have opportunity to share a part of the value chain in terms of supply. Now, coming to Latin American market it is not Latin America or any geography. It is throughout the world we will be screening each and every country. In countries where it makes ample sense that all the businesses of Ranbaxy as well as Daiichi Sankyo should be taken care of by Ranbaxy, Ranbaxy will do it.

If there are countries where it makes sense that all the businesses should be taken care of by Daiichi Sankyo then Daiichi Sankyo will take care of it because of inherent strength that they may have. And in countries where both are either equally strong or equally weak, both the companies will go there on weight. That is the decision under the hybrid business model. It is not a region or a geography it is a country-by-country analysis and as an when we complete those analysis we will be taking those decisions.

Sonal Gupta: Right. But the degrowth the we have seen last time for this quarter year-on-year basis is not linked to the Mexico business going off?

Arun Sawhney: I clarified, it was because of transient supply disruption. Very soon I think we should overcome all of that.

Sonal Gupta: Okay. Thank you very much.

Arun Sawhney: Okay. Thanks.

Sardeep Sarkar: Thank you Mr. Gupta. Well, here comes the next question from Mr. Nitin Agarwal from IDFC Securities. Mr. Agarwal you can go ahead and ask your question please.

Nitin Agarwal: Hi. Thanks for taking my question. You know, on the Nexium formulation supplies where are we, have those supplies got initiated? And where do you book them in the segmented classification?

Arun Sawhney: In the US businesses.

Nitin Agarwal: Okay. And is it those numbers already hitting the sort of peak numbers will or do you see those numbers scaling up as you go along wherever the numbers are right now?

Arun Sawhney: I cannot share the numbers but...

Nitin Agarwal: No, I am saying more on trend. I have not...

Arun Sawhney: It is as per the plan.

Nitin Agarwal: Secondly, we launched Atorvastatin in Australia, Italy and a couple of these European countries where we launched them under relatively limited competition. So, how material are these launches for us, I mean, for the quarter as well as for the year?

Arun Sawhney: I think very important. We are, in certain markets the business complexion will change this year because of only Atorvastatin in some of these markets.

Nitin Agarwal: Because somehow the numbers do not seemed to be indicating a barring probably in Austral-Asia geography, at least in Western Europe that impact does not seemed to be visible given the fact that we launched in two, three geographies and we had a headstart in at least a couple of them.

Arun Sawhney: Let us say in case of APAC there is a 59% growth in business as compared to last year. I think it is pretty significant if it is 59%.

Nitin Agarwal: Yes, APAC I appreciate. I am saying more on the Western Europe part of it.

Arun Sawhney: Just a minute. I think in Western Europe we have launched in few markets. Say for example we have launched in Germany. I mean, Simvastatin was the big one in Germany. So, relative to the opportunity in these markets I think we are doing pretty well. We are doing pretty well as per our plan.

Nitin Agarwal: But do you see scale-up happening as you go along or, you know, the exclusivity period sort of ended for us in these geographies and this is where we are going to be as far as getting sustainable numbers on western Europe on Atorva is concerned?

Arun Sawhney: If Atorvastatin starts to cannibalize other statins, yes, there will be volume expansion and we will stand to gain substantially because of our position there.

Nitin Agarwal: Oh. And just one last if we can squeeze in, Mr. Bannerjee on the staff cost, we have a 13% increase YOY, so, is this like a base number now to sort of analyse for the year or just a profit of one of which is an element which is there in Q1 numbers?

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Indrajit Banerjee: I mentioned 13%. Yes, in general but it is a function of two things. It is a function of the numbers and it is a function of the rate increases. So, that may change year-on-year as we go along. Obviously, if we stand to gain from volume, stand to gain from the capicities we have already created, you will see a lesser percentage. Because obviously the numbers would not go up in the same proportion as the volume of sales. But in terms of normal increases in compensation, yes, there we will follow the market. That is it.

Nitin Agarwal: Okay, fine. Thanks very much.

Moderator: Thank you Mr. Agarwal. Well, the next in online we have Mr. Jesal Shah from JM Financials. Mr. Shah you can go ahead and ask your question please.

Male Speaker: Yes. This is Jesal. Just two questions from my side. One is if I look at the consent decree there are few things that had to happen after the signing and I was just wondering if you have heard, I am sure you would have corresponded with the FDA and if you have heard anything from the FDA pertaining to your accepted applications, you know, whether they are okay with the data which you have submitted?

Arun Sawhney: Okay. The first part of your question, there are certain obligations under the CD and all the obligations under the CD that we had to fulfill till end of April, we had successfully fulfilled. So, there is no hiccup there. And on the accepted applications, yes, there is an ongoing discussion with the FDA on that.

Jesal Shah: There is no conclusive thing about whether they have accepted, the statements which you have made on the accepted applications?

Arun Sawhney: Like I said, we are having an ongoing discussions with the FDA.

Jesal Shah: Okay, fine. And the second question was on the US base business if I look at the US business obviously, you know, Atorvastatin has driven, you know, in the past you have talked about base business being about 75, 80 million dollars per quarter. As I look at the business for the next let us say one or two years, you know, would it be safe to say that it will be still driven by kind of exclusive opportunities there or should we also look forward to some ramp up in the product, you know, which are not necessarily from exclusivities?

Arun Sawhney: You know, and the base business itself I think in the year 2013 should clock more than 100 million per quarter.

Jesal Shah: Right. Okay, okay. Thank you so much.

Moderator: Thank you Mr. Shah. Well, the next question is from Mr. Rahul Sharma from Karvy Stock Broking. Mr. Sharma you can go ahead and ask you question please.

Rahul Sharma: Sir, just wanted to know the Nexium supplies. Have you started formulation supplies as your API number is basically moving down from this quarter onwards?

Arun Sawhney: Yes, we have started the formulation supplies.

Rahul Sharma: Okay. And this will be the trend probably reflected in Europe, mainly or which geographies would it be reflecting?

Arun Sawhney: API would be India, formulations would be US.

Rahul Sharma: Okay. And sir what about the R&D expense? How much is R&D expense for the quarter?

Arun Sawhney: $22 million dollars in the quarter.

Rahul Sharma: Okay. And sir how much would be the Lipitor pipeline which should be the inventory pipeline as of April?

Arun Sawhney: What pipeline?

Rahul Sharma: Inventory pipeline.

Arun Sawhney: Sufficient to take care of our business.

Rahul Sharma: Sir, I did not catch you. I cannot hear you.

Arun Sawhney: We would be having sufficient inventory business to take care of our business and even the upside.

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Rahul Sharma: Okay sir. Thank you.

Moderator: Thank you Mr. Sharma. Well the next question is from Mr. Chiragh Talati from Espirito Santo. Mr. Talati you can go ahead and ask your question please.

Chiragh Talati: Yes. Thanks for taking my question. Firstly on the gross margins once again you started supplies of Atorvastatin to the US from Mohali in March. How big would have been that contribution in terms of gross margin improvement if you can just throw some light?

Arun Sawhney: We are not giving a guidance on product-by-product or transaction-by-transaction or plant-by-plant, but, yes, there would be improvement and the overall improvement will be reflected in the EBITDA margins during the year.

Chiragh Talati: So, what I wanted to understand is that has that been reflected in Q1 or we should be seeing that in Q2 onwards only?

Arun Sawhney: From Q2 onwards because we did the first shipment in the second half. I do not remember the exact day but it is the second half of March. So, the material would have reached there somewhere towards the end of March. I think the sale should be reflecting in Q2.

Chiragh Talati: Basically, on Germany, I mean, I fail to understand, it is the largest market in Europe and data seems to suggest that it is a huge market for Atorvastatin. So, I mean, is there a disconnect or why have you not picked up that market, I mean, I am sure it is pretty significant for even if you assume that Simva is the largest molecule?

Arun Sawhney: Well, I am talking in relation to the size of the market. Let us say Germany, ordinarily should have been the largest Atorvastatin market in Europe. But because Pfizer took a stand that we are not going to do price matching and so on and so forth. So, my analysis would be slightly be different from yours if you feel Germany was actually a very big market.

Chiragh Talati: So, what would be the molecule size for Atorvastatin back in say 2010 or 2011 before it went generic?

Arun Sawhney: In 2010 or 2011 worldwide, should have been what? 14 billion?

Chiragh Talati: For Germany, market sales could you share?

Arun Sawhney: I do not know that.

Chiragh Talati: Okay, fine. And lastly on the Middle East and North Africa region, I mean, you semed to be building capacities over there but we have seen, you know, stance from Algeria, from Egypt, from Morocco and Tunisia the four markets you mentioned, all of them are going towards protectionism; everybody is kind of demanding a local production facilities. So, our sales do not seem to be reflective of a large table-based. So, are we kind of going in a situation where we will see, you know, operating leverage being created or significant capacities being added, you know, three, four years before we resume any revenues?

Arun Sawhney: Not really. Because in certain other African countries we are already there, in Nigeria and South Africa we are already there. And in Morocco, no, it will not be three-four year gestation period. It should be, this year itself we should start seeing revenue coming in.

Chiragh Talati: Particularly...

Umang Khurana: Chiragh could we move on to the next participant please? We are also running out of time.

Chiragh Talati: Sure, sure. I will take back that question...

Moderator: Thank you Mr. Talati. Well, the next in online we have Mr. Ranjit Kapadia from Centrum Broking. Mr. Kapadia you can go ahead and ask your questions please.

Ranjit Kapadia: Thank you for taking my question. My question relates to Caduet. What is the market share which you have garnered and what is the plan forward?

Arun Sawhney: In Caduet we are leading. I do not have the latest number. It was well in excess of 40%.

Ranjit Kapadia: And, Sir, regarding the domestic market what is the DPCO of coverage and what will be the impact of NPPA on the performance of the company?

Arun Sawhney: Actually the NPPA's decisions have not yet come as you know the first proposal comment from department of pharmaceuticals that was responded to by Health Ministry and the Prime Ministers officials given the proposal and there is no final proposal as of now.

Ranjit Kapadia: And what is our percentage of DPCO currently, exposure?

Arun Sawhney: I think it should be in line with the industry, maybe, the industry is somewhere around 20-25%. I do not think our basket will be any wider than that.

Ranjit Kapadia: Okay. Thank you and wish you all the very best sir.

Arun Sawhney: Thank you very much.

Moderator: Thank you Mr. Kapadia. Well, Mr. Abhay Shanbhag from Deutsche Bank would like to ask a question. Mr. Shanbhag you can go ahead and ask your question please.

Umang Khurana: Abhay we are just running out of time. May I request you for only one last question and then we can log off.

Moderator: Sure sir.

Mr. Abhay Shanbhag: Just on the cost of the FDA remediation if I understand your answer correctly to your previous question you said you are not estimated the cost required for remediation. So is it going to be significant because our understanding was that in last two-and-a-half years the plants have largely been upgraded to meet the FDA standards?

Arun Sawhney: We have voluntarily taken measures in the last couple of years. And I think that should place us in good step. We really will be very surprised if we have to make very large investments for infrastructure but there could be some expenses relating to the fees of the consultants which we are unable at this point in time to estimate because we don't know what kind of time they would spend and what kind of hours they would clock in and so on and so forth. That's why I was telling that it could be very speculative if I try anything now. It is best to estimate only when once they have visited our facilities and had their first dialogues with us.

Abhay Shanbhag: So, as of now the consultants have not visited your facility?

Arun Sawhney: Not yet. I clarify that should happen within Q2 and by the end of Q2 we should be having a fairly good in a lot of situations.

Abhay Shanbhag: So, the consultants will come to you, if they are comfortable with your plans they will recommend to the FDA that they are okay and after that will be there in every inspection, three inspections, would that be right to understand?

Arun Sawhney: You are very right.

Abhay Shanbhag: Otherwise, you will have to make a modifications for you to suggest. So, that would...

Arun Sawhney: Yes, you are very right.

Abhay Shanbhag: Just one last question, Umang. You know, Lipitor, this quarter do we expect revenues to come from the marketing exclusivity period or that's largely been taken care in the December and the March quarter itself?

Arun Sawhney: I think it will be both because the exclusivity runs up till 30th of May. So, in the second quarter June would be a part of the second quarter month. I think during the quarter you will have revenues coming from both exclusivity and also beyond 181 days. And I think we will close here.

Abhay Shanbhag: Okay, fine. Thank you sir.

Moderator: Thank you Mr. Shanbhag. With this I would request Mr. Khurana to take over the floor for the final comments.

Umang Khurana: Thank you everyone for joining in. And thank you for all your support. We look forward to speaking to you later. The presentation would be online, say, in another couple of hours. So, anything else that you need will also be available. Thank you.

Moderator: Thank you so much and thank you all the panelists. Well, with this we go ahead and conclude the conference for today. Thank you all for your time. Wish you all a pleasant evening ahead. You all can disconnect your line. Thank you.