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Dear Sir,

Sub.: Transcript of Investor Conference Call for Unichem Laboratories Limited for Q1 FY16-17 Unaudited Results.

Please find attached Transcript on the Unaudited financial results for the quarter ended June 30, 2016.

Please take the above on record.

For UNICHEM LABORATORIES LIMITED

Shalini Kamath
DGM (Secretarial & Insurance)



Unichem Laboratories Limited Q1 FY 2017 Earnings Conference Call July 25, 2016

Moderator: Ladies and gentlemen, good day and welcome to the Unichem Results Conference Call, hosted by Systematix Shares and Stocks Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should 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 now like to hand the conference over to Mr. Ranvir Singh from Systematix Shares and Stock. Thank you and over to you Sir!

Ranvir Singh: Thanks. We welcome all to the Q1 FY2017 post result concall for Unichem Laboratories. We have with us, Mr. Monish Shah – Manager Investor Relations and Mr. B.S. Dhingra – Chief Executive Domestic Formulations and Mr. Rajaram Pai – General Manager Finance for Unichem Laboratories. Now I am handing over to management. Thank you.

Monish Shah: Before we begin, I would like to make a small announcement, that today on the call, we do not have Mr. Rakesh Parikh. He is not in office due to medical leave of absence, and filling in for him we have General Manager (Finance), Mr. Rajaram Pai. Before we begin the call, I would like to highlight certain financial highlights of the quarter post that I would hand it over to Mr. Dhingra.

During the quarter total income from operations grew by 9.5% Rs. 342 Crores. EBITDA came in at around Rs. 44 Crores, net PAT came in at Rs. 25.8 Crores. This was slightly lower mainly due to two reasons; one is higher deferred tax and the second is approximately Rs. 7 Crores provided for diminution of Brazilian subsidiary.

During the quarter we have filed two ANDAs taking the total to 38 filings of which 21 are approved. I now hand it over to Mr. Dhingra for his commentary on domestic formulations post that we will open the floor for Q&A. Over to you!

B.S. Dhingra: Very good evening friends. I hope good monsoon in Mumbai and other parts of India will harvest good results into many sectors including pharma.

Coming to Unichem’s Q1 results, as you could see that compared to the corresponding quarter where we had Rs. 196.96 Crores for domestic formulation business for Unichem this year in the Q1 we had done Rs. 221.54 approximately incremental revenue growth of Rs. 25 Crores and which makes it to around 12% year-on-year growth in Q1 for the domestic business.

As you can also see are the structural changes what we undertook few years back in Unichem for domestic business for our Cardiovascular division, or for our CNS division, or for our acute verticals, those have all started paying the dividends. If you see the growth of the legendary brands like Losar, Ampoxin, you can see that Losar is also improving its market share and quarter-over-



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quarter we are able to improve on MAT basis the market share of around 1.7% similarly for Ampoxin also we are able to improve the market share of around 2.5%.

When it comes to AWACS number vis-à-vis internal number there are definitely lot of gaps. The AWACS numbers are lower and we are trying to understand the reason for these differences. I do not know whether similar problem you are finding with the other companies but off late AWACS is not reflecting our overall numbers.

Having said that I think the best way to like interface will be to take your questions and then give you the proper answer from questions to questions, so that you can relate to any query you have. With this, I hand over to all the participants.

- Moderator:** Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Rashmi Sancheti from SBI Cap Securities. Please go ahead.
- Rashmi Sancheti:** Thanks for taking my question. My first question is related to domestic business. Mr. Dhingra, if you can divide your growth between like what kind of growth you have seen because of price hikes, volume growth and new product launches?
- B.S. Dhingra:** Very good question, Rashmi. I think it will be of interest to everyone. If I look at our volume growth it is approximately 6% and the price growth is around 6% for the Q1. If you compare it with the last year where the price growth was 7.4, as you know because of NLEM the price growth is reducing and our volume growth is at par with the last year. So the impact of the growth is coming because of NLEM and other factors like fixed dose combinations.
- Rashmi Sancheti:** Sir, any new product launches which you have done in this quarter?
- B.S. Dhingra:** We have not done any product launches in this quarter, but in Q2 FY17 we are launching two to three products in domestic business.
- Rashmi Sancheti:** Sir, if you can tell us what was NLEM growth this quarter and non-NLEM product portfolio growth?
- B.S. Dhingra:** We have divided it into three baskets, when we look at NLEM growth it is around 3.6% for the quarter and the Non- NLEM is around 4.6%. So net-net if you see it is around 4% growth. Actually the growth is driven by the growth products of Unichem where we are growing at around ~17% and the other growth comes from the pillar brands like old brands like Losar, and Ampoxin those all five six brands they are contributing to a growth of over 10 %.
- Rashmi Sancheti:** Overall NLEM portfolio has shown a growth of?
- B.S. Dhingra:** 3.6%.



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- Rashmi Sancheti:** And non-NLEM?
- B.S. Dhingra:** Without FDCs it is around 12.6%.
- Rashmi Sancheti:** Sir next question is related to export business. How much is the CMO contribution during the quarter?
- Monish Shah:** CMO stands at around 9% to 10%.
- Rashmi Sancheti:** Of export sales?
- Monish Shah:** Of the total sales.
- Rashmi Sancheti:** Thanks. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.
- Sudarshan P:** Thank you for taking my question. Sir, my question is around the cost side. I mean if I look at probably the employee benefit cost, the cost has actually gone up both absolute as well as the percentage of sales, but if I recall earlier commentary and trajectory of the business we were talking about field force rationalization and cost cutting exercise. So one would actually assume that the employee benefits as a percentage of sales will actually start coming down but not going up. Are we missing something here Sir?
- B.S. Dhingra:** Let me give you a commentary on domestic front. When I made this comment last year and it was primarily we were using the field force across the verticals rather than we were calling it as rationalization of manpower. The cost of manpower here has not gone up because of we are not doing rationalization. The cost impact is because the bonus act did not come in the first quarter numbers of last year. Second cost factor is because of hiring done at various plants. So the cost is not because of domestic manpower increase
- Sudarshan P:** Sure Sir. The second thing is if I am looking at the subsidiary niche generics, we have been seeing pretty tepid kind of performance over here and I think even this quarter it was not very exciting. What are the strategy here and the way to go for this business?
- Monish Shah:** For niche generics, actually there were two reasons. One was external and one obviously was internal, so the external reason is something which most of the other companies working in the European market are also facing, it is mainly the pricing pressure. For us there were other internal issues in terms of supply constraints. Niche Generics was competing for the same products, which we were marketing in the US as well. Now US having a higher realization obviously got a higher preference.



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Now post the Goa formulation expansion we will be able to supply to Niche Generics also and that I think has been reflected in Q1 numbers. So going forward performance of Niche Generics will stabilize in FY2017.

- Sudarshan P:** So this 70 million for diminution that we had provided can you give a bit more clarity on that? In the overall scheme of things, whether it can further be provided given the overall environment in the emerging markets?
- Monish Shah:** The total investment the company has made in the Brazilian subsidiary is around 57 Crores of which around Rs 22.5 Crores was provided in the last financial year.
- Sudarshan P:** How much was provided?
- Monish Shah:** ~Rs. 22.5 Crores and prior to that ~Rs. 4.5 Crores were provided. So this year what we are saying is that Rs. 7 Crores will be provided for the first three quarters based on the conservative accounting policy that we follow as per accounting GAAP, wherein if a subsidiary is not able to generate enough revenues or profits on a consistent basis then we have to make a provision for that, but this is always reversible if the subsidiary starts improving its sales and profits.
- Sudarshan P:** And we have provided the entire 7 Crores in the first quarter?
- Monish Shah:** Yes, absolutely. It is reflected in the other expense segment.
- Sudarshan P:** I mean we are not going to see anything additional for the next two quarters is what I understand?
- Rajaram Pai:** In the three quarter you will see 7 Crores each.
- Sudarshan P:** Yes 7 Crores each. Thanks a lot. That is it.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** Thanks for the opportunity. Sir, just trying to understand growth, which is about 12% plus, if you could break it into volume, price and new introductions?
- B.S. Dhingra:** As I said earlier in Q1 FY17 there was no new introduction. When it comes to volume growth it is around 5.9% and similarly the price growth is almost 5.9%.
- Prakash Agarwal:** Sir, the question actually why I asked is because if I see the AIOCD data it is showing about 5% growth for the quarter with a 5% dip in the volume. So I would have assumed that given there was a pricing change, WPI change and all there was some supply disruption in the market as also discussed with few distributors?



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- B.S. Dhingra:** Actually in our case there was some disruption the AWACS reflection is not right for us as of now, and we are trying to rectify that. We are showing that growth trajectory across verticals is showing good growth based on internal number and why the same is not getting reflecting in AWACS? We are confident that our volume and value growth will continue to be robust.
- Prakash Agarwal:** It could be better or at least 12% of growth for the year?
- B.S. Dhingra:** At least for Q2 as I said the monsoon and Rain Gods can have some positive effect which should reflect very positively in the acute business of the company. In Q2 FY17 we may see around 100 to 300 basis points more than what we have seen in Q2 FY 16 in terms of growth of year-on-year basis.
- Prakash Agarwal:** And any color you can give on the FDC ban? How does it impact us and what are the backup strategies we have implemented?
- B.S. Dhingra:** When I look at the FDC ban and the products are of not high volume when it comes to Unichem. Since You know that Court has put a stay and we cannot bill what we have produced so if you look from that angle we have lost in terms of some value and which has led to around 34% degrowth of fixed dose combination over last year, but still all stocks are lying with us. We are billing it to all the channels wherever the demand is coming, but as of now we have stopped production of fixed dose combination. We are waiting for the court order based on that we will take a call.
- Prakash Agarwal:** Any top 20 brands Sir that might have got impacted?
- B.S. Dhingra:** No these are the small brands, not top 20 brands.
- Prakash Agarwal:** Not top 20 brands. And last question Sir, can you help us with your MR for fiscal 2016 end and fiscal 2013 also? Last year and fiscal 2013 just trying to understand the scale up?
- B.S. Dhingra:** FY2013 it was ~1950 and ~2500 in FY16.
- Prakash Agarwal:** Within the last three years?
- B.S. Dhingra:** Yes.
- Prakash Agarwal:** Thanks and all the best.
- Moderator:** Thank you. The next question is from the line of Rahul Sharma from Karvy Stocks. Please go ahead.
- Rahul Sharma:** Just wanted to know without the bonus and the Goa plant, what would be the steady run rate for staff cost?

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- Monish Shah:** I think bonus impact will be included since it is mandatory to provide for all the quarters going forward. So if you see the Q4 FY16 number that should be the steady number to look at plus certain add ons.
- Rahul Sharma:** Thank you. I will join back the queue.
- Moderator:** Thank you. The next question is from the line of Charulatha from Dalal & Broacha. Please go ahead.
- Charulatha:** I have two questions; one is can you give me the value of FDC in the current sale?
- B.S. Dhingra:** Around Rs. 2 Crores for a quarter.
- Charulatha:** The second question pertains to exports. Is it that on a QOQ basis there is a decline in exports? Is there any reason for that whereas the company has received approvals?
- Monish Shah:** Actually if you see QOQ there is a decline of around Rs. 4 to Rs. 4.5 Crores. This is mainly because of higher contractual sales that we saw in Rs. Q4 FY16 and pertaining to the approvals that we have got we will be launching three more products in the US market in Q2FY17 and Q3FY17. So it is mainly because of slight change in the contractual business orders that we have seen hence a little spike in the Q4 numbers.
- Charulatha:** Thirdly about the Kolhapur unit, when do you expect commissioning?
- Monish Shah:** We have started capex program aggressively on that front and in the current quarter company has spent over Rs. 50 Crores on the capex which was mainly attributed to the Kolhapur unit. And for commercialization we are looking at some time in the first quarter of next year and not before that. Initially this plant will be catering to ROW markets and domestic market, post that Company might go in for the US FDA or UK MHRA approvals.
- Charulatha:** So that also will be for FY2018, ROW and India supplies will stabilize in FY2018?
- Monish Shah:** All the commercial batches will start from Q1FY18.
- Charulatha:** How much is the capex you are planning for FY2017-2018?
- Monish Shah:** Around 200 Crores is what we have earmarked and most of that will be towards the API facility in Kolhapur. Some of it will be the maintenance capex and R&D and Biosimilars related costs.
- Charulatha:** Capitalisation?
- Rajaram Pai:** Capitalisation will be in the next year, FY2018.



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Charulatha: Thank you.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Thanks. Couple of my questions has already been answered. If you can just throw some light on the kind of structural changes that we have taken in the domestic market to address the decline or the lower growth that will be one? Second also wanted to know what kind of new product launches are we planning may not be immediately but let us say this year as well as next year some color on that?

B.S. Dhingra: When it comes to the business structure as I have explained already number one the business has been divided into three clusters. The first cluster of business is focusing on cardiometabo where we have four verticals, since you know that Unichem is a company of ARBs, so we have the cluster having antihypertensives, statins, antidiabetic products.

The second cluster is into CNS. When I call it CNS there are two verticals within this cluster, which are focusing into psychiatrist, physician with psychiatrist and neuro physicians. And this same cluster also has derma business, which focus on derma and infertility.

The third cluster is our acute cluster where we have four verticals which are focusing into day-to-day pain management anti-inflammatory, antibiotics, and GI products, so that is one basket where we are concentrating on. Now off late from April we have also thought of taking Unienzyme to OTC business. As you know that Unienzyme currently and internally contributes around Rs.50 Crores and we have done due diligence from almost one and a half years, where Unienzyme is ripe to move from prescription to OTC market.

We have tied up with one of the leading multinational company, which has a very successful track record in OTC business for marketing purposes and we are utilizing their capability in launching Unienzyme to OTC business. In the next few days we have set a date for the month of August, where we are launching our first TV commercial on a pan India to launch Unienzyme into OTC business. We are calling it as "Freedom from Indigestion". I am sure that step will also help us to scale up our revenues and bottomline by taking the unique initiative after a long time in Unichem taking a product Unienzyme to OTC market.

Nimish Mehta: So that is very interesting thing taking Unienzyme to OTC market, if you can just let us know about the addressable market and which OTC drug you will be competing with when we are talking about Unienzyme in OTC. Can you give us a sense?

B.S. Dhingra: At present there is no competitor into that market. We are the first to take that initiative, because the market is full of Ayurveda like Pancharishta, Digene, Gelusil MPS, Hajmola those are the products, which are existing in that market. We have done a patient survey and understood it if



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they are having indigestion and what does indigestion cause to them and if indigestion causes for example fullness of stomach, gas, then how does the Gelusil MPS, Digene or Hajmola or Pancharishta is going to help them.

So after doing one and a half year of due diligence we came to a conclusion that today Unienzyme is not getting prescriptions from the doctors to the extent it should get. So probably it has to move to the patient directly. The patients are suffering from indigestion because of changes in lifestyle and their food habits I am sure you must have heard the names of Pantoprazole, Rabeprazole, this segment is a total vacuum where there is no worry. So we thought that Unienzyme has the strength into indigestion space therefore as a management we have taken a decision to put it into OTC market to see that within few years if we can make Unienzyme a big brand, and a brand which can be preferred by consumers for indigestion and related symptoms.

Nimish Mehta: That was very helpful. Finally, if I may on the same subject, you said you have tied up with MNC what is the arrangement between both?

B.S. Dhingra: You are right. We have tied up with their expertise. They are a service provider to us in terms of helping us to launch TV commercial, reach out to more retailers, managing channels, but the brand Unienzyme is with Unichem. We are only expertise from a multinational Company in terms of their expertise for launching Unienzyme to OTC market.

So there is a fixed cost, fixed fees for that. They will be with us only till December 2016 and post December Unienzyme will be handled by our internal team who will be hired for taking it to TV commercial and other ATL, BTL activities which are necessary for the brand.

Nimish Mehta: What is the marketing budget you are looking for in the next couple of quarters, so that will also be a little bit brand initially on the numbers, right?

B.S. Dhingra: As of now for this financial year the fees is very nominal which has already been budgeted and based on August onwards what kind of TVC response comes in we will look at what kind of marketing budget we need to plan for FY2018 and onwards.

Nimish Mehta: Thank you very much. This is very helpful.

Moderator: Thank you. The next question is from the line of Charulatha from Dalal & Broacha. Please go ahead.

Charulatha: In terms of domestic market, what is the kind of growth that you expect going forward?

B.S. Dhingra: On the back of better monsoon, we are expecting an uptick in acute business. Sequentially we may show around 100 to 300 basis points more and even YOY also we can show around 200 basis point more growth.



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- Charulatha:** For the full year?
- B.S. Dhingra:** Full year we expect to show better growth. There were doubts that the growth is coming because of base effect. So we have come out of that base effect and the growth is actual and I am sure that you will continue to see a robust double-digit growth for this financial year.
- Charulatha:** And exports the growth will be more than?
- Monish Shah:** Yes definitely, because with the addition of the expanded capacities available and also the approvals that we have got for the US, so obviously the exports growth will be much better than last year.
- Charulatha:** Can you also expand a little bit on the Brazilian subsidiary?
- Monish Shah:** What exactly would you want to know?
- Charulatha:** You have written off some amount?
- Monish Shah:** It is not a write off. It is a provision. So once the subsidiary gets more approvals and the products which are marketed start generating higher revenues, these provisions will obviously be reversed. So for example; if we are providing let us say ~Rs. 28 Crores for this fiscal and later on from FY2018 the revenues improve and the profitability improves this number can be revised. It is a provision. It is not a write off.
- Charulatha:** And what kind of margins would you see going forward in FY2017 do you see an improvement in margins?
- Monish Shah:** For Brazil or for the company overall you are asking?
- Charulatha:** For the company
- Monish Shah:** Yes, once the expanded capacities will be available the US will start showing good improvement in sales and this operating leverage will definitely help us. We can expect some improvement in the margins overall.
- Charulatha:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of C. Srihari from PCS Securities. Please go ahead.
- C. Srihari:** Any guidance that you are providing for the current fiscal for the US business?
- Monish Shah:** I mean not much. We are looking at growing at the same pace of around 30% to 40%



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- C. Srihari:** So around \$50 million for the current fiscal?
- Monish Shah:** It will be little less than that but can be more than \$40 million.
- C. Srihari:** Do you expect to maintain the same kind of a growth rate for fiscal 2018 as well?
- Monish Shah:** Fiscal 2018 yes, also it depends on the approvals. So if we do not get any approvals then it becomes difficult to stretch beyond a point since these are mature products gone off patent since many years and having lot of competition. Hence it becomes difficult to rely on the same set of products for higher revenue in absence of any new approvals.
- C. Srihari:** But you would have some projections, right based on that may be you would have some internal forecast?
- Monish Shah:** Yes, we do have and also there are certain products, which are due for approvals also. So based on that we are pretty confident about the US structure.
- C. Srihari:** So you would be comfortable with a 30% odd kind of appropriate?
- Monish Shah:** Yes, absolutely.
- C. Srihari:** Thank you.
- Moderator:** Thank you. The next question is from the line of Dinesh Pathak from Goldman Sachs. Please go ahead.
- Dinesh Pathak:** How many products are you actively selling in the US market?
- Monish Shah:** Currently we are selling 15 products and 21 are approved.
- Dhires Pathak:** How many do you plan to file this year?
- Monish Shah:** Already we have filed two ANDAs this quarter and based on the feedback from our R&D team, they are expecting to file another four to six products.
- Dhires Pathak:** How many you have filed last year, full year?
- Monish Shah:** Last year we had done two filings.
- Dhires Pathak:** Thank you.
- Moderator:** Thank you. The next question is from the line of Purvi Shah from Sharekhan Limited. Please go ahead.

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- Purvi Shah:** Thanks for taking my question. Sir, most of my questions are answered. Sir just wanted to have a follow up on the EU fine. What is the status of the case currently?
- Monish Shah:** Actually the case has not come for hearing as of now and it is status quo so there is not much of an update on that.
- Purvi Shah:** So do we expect anything to be happening in this year?
- Monish Shah:** We were told that we will get some update in the month of October. So we are waiting for that.
- Purvi Shah:** Thanks. All the best.
- Moderator:** Thank you. The next question is from the line of Manish, an independent investor. Please go ahead.
- Manish:** Just one question, your results today include the subsidiaries as well and what would your profit on a consolidated basis for the quarter?
- Monish Shah:** It does not include the consolidated profits of the subsidiary and since we are reporting standalone numbers, we would not be in a position to give you the consolidated profits. Although There are certain elements of the subsidiary sales and profits, which are included in the standalone numbers, which are based on the transfer pricing.
- Manish:** Could we get a rough idea how much the profits would be higher by?
- Monish Shah:** Would not be in a position to disclose.
- Manish:** Second question is why there is a significant drop in domestic API revenue?
- Rajaram Pai:** Actually we have two US FDA compliant facilities at Roha and Pithampur. Now these two facilities are mainly catering to the US markets for captive consumption and there are certain capacity constraints and so that is the reason why the preference is going towards the US market more and that is why the sales to the third parties have taken a backseat. So once the Kolhapur plant comes on stream, I think the API sales to third party will also improve.
- Manish:** But the API sales overall also has come down, right?
- Monish Shah:** Exactly both domestic and exports.
- Manish:** Thanks.
- Moderator:** Thank you. Next question is from the line of Ranvir Singh from Systematix. Please go ahead.



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- Ranvir Singh:** Thanks. We do have a few questions related to US market. Just wanted to understand that three products we said we will be launching may be in next two to three quarters. Which are the products actually? Can you disclose the name?
- Monish Shah:** Actually the recent three approvals that we have got we will be launching those products.
- Ranvir Singh:** Secondly in domestic we talked about the OTC, Unienzyme is moving to OTC. Do we have other products also which can be shifted to OTC because we will anyway be investing in marketing set up? So we will start with Unienzyme but we have a plan to add further in this division?
- B. S. Dhingra:** You are right. We are starting for next one year with Unienzyme and we are developing GI basket products, which have a potential to move to OTC.
- Ranvir Singh:** Thanks everybody for participating. With this all the best for the management also. Thank you.
- B. S. Dhingra:** Thank you very much.
- Moderator:** Thank you. Ladies and gentlemen on behalf of Systematix Shares and Stock Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.