



Moderator: Ladies and gentlemen good day and welcome to the Unichem Laboratories Limited (Unichem) Q3 FY 2016 results conference call, hosted by Systematix Shares and Stock. 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 hand the conference over to Mr. Dinesh Bajaj from Systematix. Thank you and over to you Sir!

Dinesh Bajaj: Welcome all to the Q3 FY 2016 results conference call of Unichem . From the management, we have Mr. B.S. Dhingra – Chief Executive of the Domestic Pharma Business, Mr. Rakesh Parikh – VP Finance and CFO and Mr. Monish Shah – Manager Investor Relations. I would first request the management to take us through the quarterly numbers, post which we can proceed with the question and answer session.

Rakesh Parikh: Thank you Dinesh. Good afternoon to you all. A very warm welcome to you on the eve of Republic Day, we had a board meeting on Saturday and investor release and the numbers have already been disseminated and I am sure you all would have gone through it.

For the third quarter, which ended this December, we have clocked a turnover of Rs.306.3 Crores with an EBITDA of ~Rs.34 Crores and net profit of ~Rs.23 Crores. As far as the last year third quarter are concerned the numbers look significantly improved; and even if you see the total nine months figure, there has been improvement in the trend, which we have been talking about.

For the nine months ended December 31, Standalone Company has clocked ~Rs.921 Crores with EBITDA of ~Rs.111 Crores. There is an exceptional item in the P&L to the tune of around ~Rs. 2.8 crores net of tax. Profit after tax before exceptional item came in at ~Rs.75 Crores for nine months period; and ~Rs.72.4 Crores after exceptional item.

I would just take a minute of yours to explain the exceptional item. I am sure some of you all would be aware the government has amended the payment of Bonus Act, 1965. The notification has come at the fag end of December and the beginning of January as a result of which there has been a significantly enhancement in terms of the base effect on which the bonus is calculated as well as the method of calculation.

This has resulted in an increased liability for us and one sad part of it is that the notification is effective from April 1, 2014 that means for the financial year ended March 31, 2015 which has already closed and the bonus distributed. So, those people will also be eligible for a higher bonus the way the gazette notification has come and the bills have been passed in the Lok and Rajya Sabha. So that quantum which is pertaining to last year we have



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showed it as an exceptional item since accounts for last financial year were already audited, and the amount is coming well over ~Rs.3 Crores and that impact we have shown it separately as an exceptional item.

Now coming back to the numbers in brief if you see that even for nine months, it is heartening to note that we have achieved double-digit growth both within India as well as outside India. The international business's double digit growth is mostly driven by the growth of the US business which continues to grow and our US subsidiary for the nine months also has shown a turnover of about 39% which it has taken the profits for nine months to \$0.8 million.

With this I would now like to hand over to Mr. Dhingra to talk about India business and to give some highlight, Over to you Mr. Dhingra.

B.S. Dhingra:

A very good evening to everybody and first and foremost I wish each one of you a very happy and prosperous 2016. As we are meeting for the first time in the month of January post our last deliberation. I am sure friends, as Mr. Rakesh has told you and you have seen the investor release.

The quarter results itself is very positive. We have shown a very good growth of ~19% as against ~Rs.158 Crores of last year corresponding period, we have done a sale of ~Rs.189 Crores. Even on YTD basis, as against ~Rs. 505 we have clicked a turnover of ~Rs. 572 approx this is a growth of 13%.

As friends, I have been maintaining with you that we have done a lot of restructuring within the business in the last few years and as I was saying that whether it is a chronic business that is CVD business or C&D business or our acute business has been aligned, keeping in mind the market forces. So therefore I was pretty confident when I was talking to all of you that we are going to get good outcome from these initiatives and restructuring which we have taken in last few years and as I have been saying to you that it is very heartening to note that our chronic business and especially that legendary brands have started showing a good trajectory and as you will see from the investor release that Losar and Trika for which we have dedicated field force and division today is showing a very positive buoyancy in the market place.

Still lots to be done, but when I say CNS, there is a very positive trajectory, our decision of putting more vertical and thus driving of a neuropsychiatry product in which have a good equity in the market place has started paying dividends..

Now, coming to acute, you know that in acute we are getting a reasonably good volume growth and we will continue to get our value growth also and restructuring in acute is also yielding results. As I shared in last year, that we have done manpower rationalization, we



have reduced our manpower across verticals by 100 people and that has positively impacted our incremental productivity.

If I look at quarter-on-quarter our first quarter productivity increased by Rs. 30000, for Q2 the sequential increased to Rs. 35000 and for Q3, the sequential increase is around Rs. 42000. So on YTD basis, if I look at the incremental secondaries it is around Rs.36000. So that speaks that our business model has started in working and paying dividends. I am sure that in coming quarters, we will find in the similar or better numbers to come.

With this I conclude my opening remarks and would request the moderator to open the lines for Q&A.

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 Anand Sharma from ICICI Prudential Asset Management.

Anand Sharma: I just had two questions. First one was that in this quarter obviously domestic numbers have been very well, base was also pretty low last time, so can you give the acute and chronic growth for this quarter?

B.S. Dhingra: In Q3FY16 chronic and acute growth is in line with overall growth that we have given. I do not have separate numbers as of now in front of me. Historically, our Q3 is less than Q2 but after a lot of efforts you see that for the first time we are able to bring Q3 numbers almost at par with Q2. It is primarily because of chronic drive, because chronic does not have that kind of seasonality as compared to acute, but having said that if you want that exact numbers I will come back to you. Currently, I do not have the exact numbers.

Anand Sharma: Second question was in the last quarter we received three approvals if I am right for you as right. So, what is the status on that, have you launched those products?

Rakesh Parikh: Out of the three, one has been launched and the balance two launches are yet to take place out of three approvals we got.

Anand Sharma: How has the traction been in the launched product, anything you can share?

Rakesh Parikh: It was too new because it was launched in December.

Anand Sharma: Thank you so much.

Moderator: We will seek the next question from the line of Rahul Sharma from Karvy Stock Broking.

Rahul Sharma: Sir just wanted to ask on the subsidiary Niche Generics, we have seen lower traction in the quarter and how do you see this subsidiary performing in quarter's ahead and next year?



- Rakesh Parikh:** What we have been explaining in the past, is that there is a kind of overlap as far as our US business and Niche is concerned. And since the realizations are better in US the focus is going more on US, and as a result of which we are not able to service Niche. This is expected to continue till the newer products come and, which will not clash with what is also being approved as an ANDA from US, basically it is a kind of supply bottleneck in terms of capacity mismatch, which is asking us to go slow on Niche.
- Rahul Sharma:** Do you foresee some sort of growth next year happening or will it be flat levels, what it has done current year?
- Rakesh Parikh:** More or less it will continue at that level, but we are looking at launching a couple of products, so if these get launched then the growth can come in the next year, then the clash in terms of capacity will not be there.
- Rahul Sharma:** Similar products are being utilized for both US and Niche or is that the reason for the overlap or what it is not been able to get it?
- Rakesh Parikh:** There were few products where Niche had got the largest market share, which formed significant portion of its sales. And these were the same products which were US FDA approved and these are made in the same plants whether they are our API plant or the formulation plant, so what is happening is, it is creating a kind of a demand from both sides for the same products for the same capacity and subsequently another two, three products also which got approved for the US were also coming from the same plants. As a result of which between the two, it becomes difficult to balance and obviously you will go where you get the maximum benefit; however, going forward, there are a couple of products, which are on the verge of getting approved, in which case in the next year those can add to the growth as far as Niche and Europe is concerned.
- Rahul Sharma:** Are you hopeful of Niche breaking even next year?
- Rakesh Parikh:** We are trying. Definitely we are looking forward for that, but as I told you it will depend on these new products.
- Rahul Sharma:** I will join the queue.
- Moderator:** Thank you very much. We will take the next question from the line of Shriram Rathi from Anand Rathi Securities.
- Shriram Rathi:** Thank you for taking my question. Just two questions, one is basically of course you have seen significant recovery in the domestic formulation business with 19%, 20% growth, so just wanted to know how sustainable is it and how do you look this growth to come in next year FY2017 and FY'2018?



- B.S. Dhingra:** In Q3 there is some kind of base impact because of some conversions we did in the corresponding period, but having said that if I look at Q4 and coming quarters as I have been sharing with you all that we have taken some strategic decisions in our business, strategic decisions have started paying off, productivity as I spelled out, the productivity has also started moving up on quarter on quarter basis, so I look forward even for a good growth in Q4. Next financial year we will continue to show a robust double-digit growth.
- Shriram Rathi:** Will it be possible for you to break down the growth in terms of how much it has come from basically mature product portfolio and how much from the NLEM portfolio on that front?
- B.S. Dhingra:** The AWACS data is there in the investor release which talks about NLEM growth, mature product growth, but internally even the mature products which I call it as a legendary brands Losar and Trika they have started doing very well similarly our UVA brands, which we called it as Unienzyme, Ampoxin, and Vizylac has also started doing well, so it is a combination of both, it is coming from mature products, also from the growth products.
- Shriram Rathi:** Last question basically on the financial side is basically we have seen there has been a significant increase in the SG&A expenses and the staff cost by almost 10% on sequential basis despite the fact that the revenue is more or less flattish on sequential basis, so what has been the exact reason for the same and how do we see that thing going forward?
- Rakesh Parikh:** Good Sriram you asked that question may be in our opening remarks I did not elaborate more. This amendment in Bonus Act which has come has two components, one is for the last year, which ended March 31, 2015, which we have shown as an exceptional item, but in the current year also three quarters impact has come, these are an exceptional because ultimately in March account it is going to come, so the entire expenses have been accounted in this quarter. As business is concerned, there is slight reduction in the number of people, but overall the hiring in plants has slightly offset though the cost would be lower, so the most of the increase which we see here in the sequential quarter as you are seeing in payroll is arising purely out of the bonus impact and may be a little bit because of incentive, because of the higher performance.
- Shriram Rathi:** Going forward from Q4 it will get normalized again?
- Rakesh Parikh:** You can say more or less representative.
- Shriram Rathi:** On the SG&A expenses that is from Rs.95 Crores to almost Rs.105 Crores this quarter we have prior to that it was stable in the range of Rs.95 to Rs.97 Crores in the past three quarters?



- Rakesh Parikh:** The expenses are as per SEBI so it is not only SG&A expenses since we have been explaining in the past that S&D expense is pertaining to US in which the largest proportion is primarily the freight and the significant revenue growth has come out of the US business only. The proportion of US sales in the standalone company is increasing even in sequential quarters. As a result of which our dispatch in sales and distribution and all cost has come higher for that business, so that is one of the driver, which is driving it. And to add to that there have been certain expenses in terms of related regulatory and training and other expenses to ensure that we meet to the stringent standards of US FDA.
- Shriram Rathi:** Should we assume this should be the run rate going forward or this can come down slightly?
- Rakesh Parikh:** Expenses can be rationalized, but if the US business continues to grow, the freight expenses and all the other expenses of that business may be a bit difficult to reduce, but definitely some of these may not recur every quarter, like last year also it happened, a lot of it came in the third quarter, so this year also may be some of it has come in the third quarter.
- Shriram Rathi:** Great. Thank you so much Sir.
- Moderator:** We will take the next question from the line of Nikhil Upadhyay from Security Investment Managers.
- Nikhil Upadhyay:** Good afternoon Sir and congrats on good set of numbers. Just three question Sir, one was in the legacy products, which mentioned Losar and Trika what is the segmental volume growth? How is the volume growth in the represented market segments if you can share that and *vis-à-vis* what is our volume growth? Secondly on the capex plan so if you can just highlight because I think two or three quarters back we were looking at capex of Rs.122 Crores to Rs.150 Crores, so how much of it is done and how much of it would be coming in FY2017? Thirdly there was EU case some three or four quarters back when as a result of which some liability was to be charged against us and so just wanted to know what is the status on that?
- Rakesh Parikh:** I will respond to your last question first, as far as the EU case is concerned there has been no development. We have gone to the court, so it remains *sub judice* and we are waiting for a revert as far as the courts are concerned. We have taken it up judicially. And for the second question which was regarding capex, we would have spent about close to Rs.100 Crores plus in the current year, predominantly on the Goa expansion and a little bit on the API side on the Pithampur expansion as well as the new site, which we have taken in Maharashtra at Kolhapur. So current year we could end up anywhere between Rs. 125 Crores and Rs. 150 Crores and next year the second phase of Goa as well as the Kolhapur, API plant would continue. It is likely that similar expenditure almost about Rs. 100 Crores could come next year too. If anything on the biosciences may come then that will be an



additional expenditure, but so far we have been able to manage it out of the internal accruals maybe because of the improving performance as well as the cash flow and the control on working capital.

- B.S. Dhingra:** What you have asked is segmental growth versus growth of the legendary brands?
- Nikhil Upadhyay:** Volume growth Sir?
- B.S. Dhingra:** I have in front of me the value growth as of now. If I look at Losartan market is growing at 5.6% while Losar is growing at 9.4%, Ampoxin legendary brand where market is growing at 2.5% and we are growing at 10.23%. Our brand is unienzyme where market is growing at 7.6% and we are growing at 12.9%. Vizylac is our fourth brand, which is growing at 12.2% in the market and we are growing at 13.9%. The AWACS is showing Trika market growth is around 8.8% while Trika is showing at 2.7% growth. These are the five legendary brands with us, which constitute around 46% currently to our overall business.
- Nikhil Upadhyay:** For Parikh Sir, just one more question. Sir, in our short-term loans and advances, it is Rs. 82 Crores number where there was an ICD of Rs. 35 Crores to Rs. 40 Crores. So, is it repaid back or is it still existing there and what is it regarding if you can share?
- Rakesh Parikh:** Basically, significant portion is still remaining outstanding. That is we have not felt the need so far to withdraw those funds. These are part of the treasury, which we had got from the sale of SEZ and a part of it was invested, and the companies which we have invested in are very well known companies with AAA rating both long-term as well as short-term for the last almost a decade or so. That is why we have retained that money there. As and when now we require it maybe for our future capex or dividend we will withdraw.
- Nikhil Upadhyay:** Last question, this Kolhapur capex, which we are doing is it for US or is it for across the geographies?
- Rakesh Parikh:** Basically our philosophy is to see that our plants are such that they are capable of any international inspection; however, as you are all aware first we have to make a plant and it takes, around two to three years before they come for the inspection, but the expenditure would be of the nature such that it will be kind of a world class plant much better than our two existing API plants, capable of going through US FDA and other regulatory bodies. The plan is like this that it has multiple plants, so some of the plants can be started, so we are looking at initially starting at least one plant maybe in the next year first quarter or early second quarter and then for a year or so other plants will slowly keep on getting commissioned, which will enable us to release some of our capacities at the US FDA approved plants, the other API plants which I am having, and then maybe after two years we will think of taking that plant also will trigger something which we go for a US FDA.



- Nikhil Upadhyay:** Thanks a lot Sir. I will come back to the queue.
- Moderator:** Thank you very much. We will take the next question from the line of C Srihari from PCS Securities.
- C Srihari:** Thanks for the opportunity. My questions are basically pertaining to the US market. We have some 15 pending filings, so can you tell me the addressable market size, number one? Secondly, what is your filing program? How many filings, you plan to do year-on-year? Are there any significant approvals that you are expecting? Thank you.
- Rakesh Parikh:** These filings which we have made balance as you rightly said are waiting approvals and we are hopeful of getting them shortly. We have seen in the last few months we have got three approvals. As far as the R&D expenditure is concerned that is working on the older molecules, where the work has already started, and they are at a very advanced stage of filing and we still are looking at kind of at least one or two filings every quarter. I know in the last quarter it has not come, but maybe there could be a bunching up of filings because of some effect and looking at the past queries and all we want to make it in such a way that we can get an accelerated kind of an approval in terms of the past timelines, we have got delayed maybe due to some queries coming in or due to whereabouts which we have.
- C Srihari:** From the awaited filings, I mean, any significant?
- Rakesh Parikh:** As I said earlier, we had identified about 40 to 50 products. These are excellent products, but they are part of the older lot. Like in India business we talk of a legendary brand, so these are the products where there are many competitors. They have already gone off patent many years back, where we are cost competitive and because of our relation with the existing distributors we feel reasonably confident of getting a reasonable market share and that has been the strategy being a late entrant and to restrict our R&D expenditure. So, right now balance filing at least for a year or so, you can say will be more or less restricted to those kind of products; however, we have already started working identifying another 10 to 15 products, which will take at least two to three years before the research work is over and the filings come in and there could be some interesting opportunity, but it is too early to say right now.
- C Srihari:** Can you tell us what would be the addressable market size of the 15 pending approvals?
- Rakesh Parikh:** We do not share that.
- C Srihari:** Any of these would be \$15 million plus kind of products?
- Rakesh Parikh:** No comments.

- C Srihari:** Thank you.
- Moderator:** Thank you very much. We will take the next question from the line of Charulata Gaidhane from Dalal & Brocha
- Charulata Gaidhane:** My question pertains to the domestic market. How many new launches have you done during the quarter?
- B.S. Dhingra:** Not really any in the quarter, but there were launches done in Q1, Q2 and some in last year, so they are adding up to the volume growth in the Q3, but going forward, we are doing a lot of launches and in Q3 in the month of December and November end we have done two launches and we have made entry into Gliptins. As you know that Gliptins is a very large market and doing well, and Unichem has entered into the Gliptin market for the first time. We have entered the market by launching Teneligliptin which has come off patented in India and there is a fast competition and everybody have entered and we have also introduced our two Teneligliptin brands into that market, which are yet to give us that kind of volume and value and I am sure that in Q4 they may add some value and volume for us.
- Charulata Gaidhane:** Now off the 19% growth that you have recorded in the domestic business how much is because of volume and how much is because of price?
- B.S. Dhingra:** You know that IPM is divided into three types of growth. One is volumes, second is new product and third is likewise growth and if you look at our price growth is around 7.5% to 8%. When it comes to new product it is around 3% and balance growth comes from volume.
- Charulata Gaidhane:** Now my second question pertains to exports. How has been the performance in the US market? You made only one new launch, out of the four approvals that were received.
- Rakesh Parikh:** Right.
- Charulata Gaidhane:** What are your plans for the remaining three products?
- Rakesh Parikh:** Those are being evaluated and may be in the next few months we will start launching them one by one, but the existing products continue to show good traction, and we have added one product in the earlier quarter. The US business is still showing well showing a growth of over 35% both at the subsidiary level as well as the standalone level. We would like to maintain this kind of a growth. Obviously with contribution from the newer launches too.
- Charulata Gaidhane:** Okay so for your international business, can you give me the breakup for the regulated markets and unregulated markets?

- Rakesh Parikh:** Basically if you take only our international that is outside India sales which the standalone company is showing the non regulated markets would be less than 10% because whatever we do either directly or through our contractual business are to the regulated markets of North America as well as Europe.
- Charulata Gaidhane:** So for FY 2017 do you expect a similar growth from international markets?
- Rakesh Parikh:** That is what our endeavor is which predominantly driven by US and the other geographies also where we are taking corrective action. That is what now the focus is. That fills in the gap and we can maintain the growth momentum.
- Charulata Gaidhane:** Yes, because nine months the international business has grown by around 6% so for the full year you expect around the same levels or a little more?
- Rakesh Parikh:** The international formulations are showing a 16% growth and if you see the total outside India and within India is also in double-digits.
- Charulata Gaidhane:** Yes, API.
- Rakesh Parikh:** APIs are too small portion of it and what is happening is that in API we report only external sales where we are not aggressively marketing to any new customers right now. As I explained that earlier and last time also that huge growth is coming in the captive consumption where we are making our formulations and that growth is captured in the formulations business. So API obviously you cannot consider and even from around 11% of our total turnover, it has already come down to something like about 7% or 8% and we do not expect any major growth coming out of that, till our formulations requirements and our own requirements are met. The margins there are much lower.
- Charulata Gaidhane:** But in international formulations, your margins are higher than domestic?
- Rakesh Parikh:** That depends on how you calculate, because there may be much lower marketing expenditure but distribution cost in terms of freight and all is higher, then R&D is higher. So it depends on how you allocate. I mean right now the India business is definitely contributing much more with higher than the company averages and the other verticals come at the same level or lower.
- Charulata Gaidhane:** So for FY 2017 you expect a similar growth from exports.
- Rakesh Parikh:** That should be the minimum, which we should try and achieve it. As we said international formulation has shown a growth of around 16% and along with the additional US approvals and the initiatives, which we are taking, we will be able to maintain and further increase that growth.



- Charulata Gaidhane:** Thank you.
- Moderator:** Thank you very much. We will take the next question from the line of Rahul Sharma from Karvy Stock Broking.
- Rahul Sharma:** Out of the 15-odd or 20 ANDA approvals how many are there in the market currently in US?
- Rakesh Parikh:** 14 products have been launched as of date.
- Rahul Sharma:** How much have we capitalized in the current year to date and what is our plan out of Rs. 125 to Rs. 150 Crores?
- Rakesh Parikh:** Utilization fourth quarter may not have happened because most of the activity at our new API side as well as Goa is work-in-progress but as I mentioned earlier capital expenditure would have crossed Rs. 100 Crores by now, in the current year.
- Rahul Sharma:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Nikhil Upadhyay from Security Investment Managers.
- Nikhil Upadhyay:** Good afternoon. Thanks for giving me the opportunity. Sir, just on this employee cost, you were explaining that the total effect has been booked in this quarter. Is it right? Sir, if you can just explain what is the normalized number and what is the impact, which we have booked?
- Rakesh Parikh:** Under the Bonus Act where statutorily bonus has to be paid upto a certain limit under the old act, and that amendment decision finally got passed in the Lok Sabha and Rajya Sabha at the fag end of December and the gazette notification came in January, but we would like to take the impact out of it since it is gazette and we have accounted it. There are two issues. The act clearly says that it is applicable with effect from April 1, 2014.
- In other words; the financial year which ended on March 2015, the audited accounts of which were published, AGM is over and the bonuses of which were already paid long time back. The current year also, whatever the limits were there, they have basically more than doubled the limit on which the bonus is to be payable. So whatever was pertaining to the last year the audited accounts were over, we have shown it as an exceptional items that is roughly about Rs. 3.5 Crores and there is a tax credit of Rs. 75 lakhs on that, and currently nine months impact which was there has also been accounted now only in December, so it is the entire effect has come in this third quarter. Resulting in the payroll costs, which has increased sequentially.



- Nikhil Upadhyay:** Rs. 3 to Rs. 4 Crores.
- Rakesh Parikh:** You see last year also it was Rs. 3.5 Crores for one year, so more or less maybe similar or slightly more for nine months figure on a proportionate basis. If you remove that then there has been hardly any change sequentially in the payroll cost.
- Nikhil Upadhyay:** Thanks a lot Sir.
- Moderator:** Thank you. We will take the next question from the line of Chirag Dagli from HDFC Mutual Fund.
- Chirag Dagli:** Thank you for the opportunity Sir. Sir, just to understand the quantum of the bonus that we have paid, so roughly Rs. 3.5 Crores is for all of last year and for the first three quarters of this year we should take a commensurate number for three quarters?
- Rakesh Parikh:** Roughly around the same one, this is only what we can provide, because very recently it has come into the notification.
- Chirag Dagli:** Sir, I am just trying to understand in terms of what has been the hit for the current year in the third quarter basically.
- Rakesh Parikh:** For the full year it will be more or less similar to prorated of last year unless some clarification comes.
- Chirag Dagli:** So, even if one sort of adds that back out your staff cost is about Rs. 57 Crores versus about Rs. 45 Crores whole of last year. I am just trying to think where is that this swing is and whether we should sort of assume this number to be continuing at the current run rate, Rs. 57 Crores a quarter.
- Rakesh Parikh:** Over last year there have been some increases, but what we have seen in the first two quarters, the employee cost is around around say Rs. 55 Crores or so. However, there have been some additions in the new plants and in R&D along with some reduction in the domestic marketing is not compared to last year. It is compared to the sequential quarter.
- Chirag Dagli:** As we get into FY 2017 what kind of wage inflation should we sort of pencil in?
- Rakesh Parikh:** That would depend on the revision. We are not expecting any major increases in manpower numbers *per se*, and based on this base, which has now come, plus the normal revision which happens.
- Chirag Dagli:** Sir, typically revision is in single digit Sir?
- Rakesh Parikh:** Maybe in higher single digit.

- Chirag Dagli:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of C Srihari from PCS Securities.
- C Srihari:** Thanks for the follow-on opportunity. I would like to know what is the therapy focus for the domestic launches that are planned? If you could give some idea in terms of which particular therapies we would be focusing more on?
- B.S. Dhingra:** You know that market is growing in antihypertensives, and diabetic market as well as in cosmetology and depression. So these are the four major sectors the market is showing good buoyancy. Having a company with ARBs and having Losar, Telsar, Olsar our focus is that if something new comes in ARB then we will be one of the first Companies to add that in our portfolio and there is a fourth ARB coming in the market very shortly called Azilsartan.. So that is what is going to be our major thrust area that can be launched Azilsartan along with Losartan which has been one of the best sartan within the kitty of Unichem.
- The second market as I said is growing into oral antidiabetic portfolio where we have entered with Teneligliptin, Gliptins are in thing so luckily we could introduce two products in Teneligliptin with two verticals, so with that we are going to scale up our diabetic portfolio.
- The third market is antidepressant where there was a very good molecule Vilazodone which has come in market and we were the first few companies along with Intas, Torrent, Lupin and Sun to launch that product where we could get an initial success.
- The fourth market is dermatology and cosmetology and infertility. It has a dedicated field force of 140 people in that market. So, I am sure that there are lot of things where we have gone for be it incensing into hair care, we are entering into acne, we are entering into hair care, we are entering in skin and whitening creams, so a lot of things which are tilted towards cosmetology, which are going to be a growth driver for domestic business. So we are into four major markets, which are going to be very attractive for us and we have planned our new product launches in that.
- C Srihari:** Any internal target you have set up for the cosmetology division?
- B.S. Dhingra:** Frankly this year we will be closing at around Rs. 17 Crores and next year we are aiming big because of some new products coming in..
- C Srihari:** Can we expect a figure of around Rs. 50 Crores next year?
- B.S. Dhingra:** How much Rs. 50 Crores?



- C Srihari:** Yes.
- B.S. Dhingra:** No. Because as of now there is no such big product because if you look at the market there are only five to six therapeutic areas, which are over Rs. 200 Crores, Rs. 250 Crores plus, but most of the therapeutic areas are around Rs. 20 Crores, Rs. 30 Crores, Rs. 50 Crores and cluttered with competition, so I think at least we should touch quarter century not even the half century next year.
- C Srihari:** So these are not the category of let us say Zydus, Zuventus or something like that.
- B.S. Dhingra:** Zydus, Zuventus is a different category altogether. We are not talking of that.
- C Srihari:** In these ARBs are you present in all the four combinations?
- B.S. Dhingra:** There are three ARBs currently available and we are present in all three and we are going to launch fourth, maybe in February end or maybe latest by April based on availability and approval of DCGI.
- C Srihari:** So how that space is growing because Natco in particular has I think very big plans from that space?
- B.S. Dhingra:** Azilsartan is currently with two companies one is with Hetero and another is MSM so we have tied up as a third party with Hetero which is going to receive its DCGI approval may be by February end, so we maybe first few to launch the product because Hetero will not only give to us but it will also give it to other partners. We will be first few to launch that product. Maybe it will be in early March or April.
- C Srihari:** So, for ARBs what is the kind of topline you expect in this fiscal?
- B.S. Dhingra:** Next year because prima facie the product looks to be good and initial signals with the key opinion leaders which we did and market surveys we did are also very positive, but the cardio safety data of the molecule is yet to come. There are a lot of trials going on. So you know that today management of hypertension or related disorder is more evidence based may it be US, may it be India, so it will take a little time to pick up that ARB *vis-à-vis* existing ARB, but the trials which are going on have initially shown very positive response. It looks that in coming years Azilsartan can also become a big market in India.
- C Srihari:** Thank you.
- Moderator:** Thank you very much. We will take the next question from the line of Ranveer Singh from Systematix.

- Ranveer Singh:** Thanks for taking my question. Sir, just on R&D what would be the R&D expenses during this quarter?
- Rakesh Parikh:** This quarter it would come to something like about 4% of the turnover.
- Ranveer Singh:** Sir, this is similar to Q2 or it is higher or lower?
- Rakesh Parikh:** It has generally been closer to 5% and this particular quarter it was slightly lower.
- Ranveer Singh:** Because in this quarter we have not filed even any ANDA also, so just I was trying to trace that R&D has been lower during this quarter or it has been similar?
- Rakesh Parikh:** The ANDA cycle may take anywhere between couple of years or so before it is filed. So the phasing of expenditures are disproportionate to the timelines and filings. If the material cost is very high then initially you will incur higher expenditure. So if the bioequivalence is higher than expenditure may come later. We are also trying to see whether we can improve the productivity of R&D. Since there was no major additional materials purchased in the current quarter, and in the first half also the proportion was close to 5%, cumulatively we at 4.5% or upwards of that.
- Ranveer Singh:** Sir last year there was some one-off in other expenditure, so just you help me recall what was that?
- Rakesh Parikh:** Basically we are talking of these regulatory and other related costs, which are coming in anticipation of this US FDA inspection and plant for systems and that so happened, you have seen at least it was luckily or timely expenditure were made, after that three of our plants got successfully inspected.
- Ranveer Singh:** So that expenses was near Rs.12 Crores?
- Rakesh Parikh:** No Rs. 12 crore was the total I think the way you all calculated based on the sequential of increase YOY, so that difference was coming to Rs.12 Crores, but a significant portion as I have been mentioned the other expenses what we see also includes component of selling and distribution expenses, which is for exports and especially for the US market are higher as a percentage to sale. Because we sell to US subsidiary and US subsidiary in turn sells it there whereas the entire distribution expenses booked here in terms of freight and all which we incur from here which is a significant portion, so as that business grows that percentage keeps on increasing, so that is one thing, and R&D marketing and all quarter-on-quarter keep on fluctuating.



- Ranveer Singh:** For Q3 what would be the AWACs growth because if press release is for year to date so can you give me this figure for quarter that AWAC based retail our company's growth versus industry growth?
- Rakesh Parikh:** Asking for the company?
- Ranveer Singh:** Yes.
- Rakesh Parikh:** The value growth for company is around 12.7% in AWACs.
- Ranveer Singh:** Because we have taken revision in prices of few products, so can you give some sense whether revision is just still pending for a few products going forward or thus the revision has been done with?
- B.S. Dhingra:** As I told you probably last time also that in Unichem our revision cycle is October for Non NLEM, and for NLEM revision depends upon WPI, which comes in April.
- Ranveer Singh:** So that is what I wanted to understand, that in October itself all the prices revision has been taken or this is starting from October, so will we be seeing price hike over the month and month.
- B.S. Dhingra:** If you look from October when the price rise happens, batch to batch it may vary, some are built in Q3, some may go into quarter four and a slow moving product may move into quarter one of next year, but it is like on an average on annualized basis the impact will be the same, which is why I told you the price impact for last year is around 7.5%, annualized basis.
- Ranveer Singh:** That is it from my side Sir. Thank you.
- Moderator:** Thank you very much. We will take the next question from the line of Rahul Sharma from Karvy Stock Broking.
- Rahul Sharma:** New NLEM policy which was announced a month back any impact on account of that and what would be the tax rates for current year and FY2017-2018, new NLEM directive which came in a month back, any impacts on account of that?
- B.S. Dhingra:** As you know Telmisartan market has come into NLEM, but still the gazette notification is yet to come. However, our price is more or less matching to what is the NLEM price so I do not foresee a very big impact for us, the major impact was Losar that we have already like suffered with, I do not think so that going forward there will be a major impact of the new policy.
- Rahul Sharma:** On the tax rate any?

Rakesh Parikh: The tax rate as you know MAT is around 21% and looking at our capitalization you can add another 2% as deferred tax comes, but if you are specifically talking it keeps on varying because depending on the capitalization. Now that the capitalization for our Goa and Pithampur plants may not happen in the current financial year, may be to some extent deferred tax may start coming off so may be in the fourth quarter you may see a slightly lower tax rate relatively, but otherwise it can vary anywhere between around 22% to about 24% or so of PBT.

Rahul Sharma: Thank You.

Moderator: Thank you very much. We will take the next question from the line of Charulata Gaidhani from Dalal & Brocha.

Charulata Gaidhane: When was the last US FDA audit for these facilities?

Rakesh Parikh: We have four facilities, which are approved by US FDA. Three of them for recertified in the current financial year. One API plant is remaining for recertification and the inspection is expected anytime.

Charulata Gaidhane: Okay, one API plant. Okay.

Rakesh Parikh: Which was done three years back so any date of is likely.

Charulata Gaidhani: Okay, where it is located?

Rakesh Parikh: One is Pithampur, API plant.

Charulata Gaidhane: Fine. Thank You.

Moderator: Thank you very much. We will take the next question from the line of Nikhil Upadhyay from Security Investment Managers.

Nikhil Upadhyay: Thanks for the opportunity. This is for Dhingra Sir. Sir if we look at Unichem domestic portfolio over next three years period if we have to sustain a growth above the IPM growth of say 12% to 13%, how do you see that driver moving in like because of legacy product would still be around 70% of our overall revenue contributor where we have seen challenges in terms of the market shifting and those things. So, how do you see growth coming from those legacy products, and how do you see the growth coming from newer products, which we are trying, to entire say the therapies so we can give broad we how things will move up or how you are looking at things over in next three years.

B.S. Dhingra: Very interesting question. One correction I can make is that not 70% contribution comes from legendary brands. Three years back it was around 52%, now legendary brands



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contribution is only 46%. First thing, as I keep briefing to all of you we have taken lot of structural measures in terms of very strategic investments, in terms of our manpower and vertical so that we can see how these legendary brands can keep to tickling a good positive growth. Having said that it is also important as you rightly mentioned to grow into the growing brands and therefore we are also very positive into making our growing basket to grow better than the market and that is why the new structure has been created to see that there is adequate manpower, adequate promotion into the brand like Telmisartan, Olmesartan, anti-diabetic, as we reiterated that we entered into Gliptins market so that the chronic basket try to antihypertensive, oral diabetic products can they become robust basket for Unichem?

So I am sure with initiative already taken and we are keeping an eye on the developments if any new molecule comes into the market we will be the first few companies to launch those products in the market place so that we also grab some coming opportunity to market. Then the other businesses like CNS business as I said is going to grow and antidepressant market is going to grow very well and there we are very confident with existing and new products which we keeping an eye. Can we take some kind of lead in that market having low productivity, can we will some good brands there? And that is happening, which will take Unichem to next three to four years journey of growth.

Coming to derma, infertility and that growing segment where we have now stable team of 140 people and with lot of products pipeline ready as of now, I am sure with a mature team we will be able to create a good incremental value on year-on-year basis. As somebody asked prior to you that can we make it a Rs. 50 Crores; yes, down the line three years, I definitely look into that this business is cross Rs. 50 Crores.

Coming to the acute basket there also we had a challenge of legendary brands from Unienzyme, Ampoxin and Vizylac, we have used the brand equity and launched Ampoxin CV, we have used brand equity of Vizylac where we have we brought Vizylac Rich and we have also in development process of some of the product in and around Unienzyme Equity.

I am sure that developments will also add lot of value because of these new products are coming into the growth market having in the equity of legendary brands so even in acute, I am confident the business will continue to grow better than the market growth. So in all the three verticals may be CVD, may be CNS or may be acute we have sufficient pipeline and we have clear cut mindset that what all we introduce in the coming months and years that has to be into growth basket so that we continue to grow better than the IPM or AWAC.

Nikhil Upadhyay:

Sir, just extending this thought a bit further, I am sorry for taking some time, if we look at the three patterns which your mentioned so one was entering new segments like the derma and all. I am just trying understand so there the focus area would be launching new molecules to the market or fighting out with the existing product which are big enough in



the market and trying to grab some market share there so what is the whole approach you are looking at there?

B.S. Dhingra: It has to be both ways of approach. First in cosmetology the new products are the new formulation of existing products. Europe is the largest cosmetology market and we are in regular touch with some of the companies which are innovating a lot of products there so we have one approach to bring something new so that it can attract more customers and get more prescriptions and bring viability to the division. On the other hand, we are also looking into existing options into a growing basket in a growing therapy where we do not have a significant market share so we are trying to drive both so that we can create a critical mass for the company.

Nikhil Upadhyay: Thanks a lot Sir.

Moderator: Thank you very much. As there were no further questions, I would now like to hand the floor over to Mr. Dinesh Bajaj for closing comments.

Dinesh Bajaj: On behalf of Systematix, I would like to thank the management of Unichem for their valuable time. A big thank you to all the participants as well. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Systematix Shares and Stock Brokers that concludes this conference. Thank you for joining us. You can now disconnect the lines.