



Unichem Laboratories Limited Q4 FY14 Results Conference Call

May12, 2014

Moderator

Ladies and gentlemen good day and welcome to the Unichem Laboratories Limited Q4 & FY14 Results Conference call hosted by Anand Rathi Shares & Stock Brokers Limited. As a reminder all participants' 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. Sriram Rathi of Anand Rathi. Thank you and over to you, sir.

Sriram Rathi

Good afternoon everybody. On behalf of Anand Rathi I welcome you all to the conference call of Unichem Laboratories Ltd on the results of Q4 FY14. Today we have with us Mr. B. S. Dhingra – Chief Executive, Domestic Pharma; Mr. Rakesh Parikh – VP, Finance & CFO; Mr. K. Subharaman – VP, Legal & Company Secretary and Mr. Monish Shah – Manager, Investor Relations. I would like to hand over this call to Mr. Monish Shah. Over to you.

Monish Shah

Thank you, Sriram. Thank you for organizing this call for us. I would like to begin by informing you all that Mr. Rakesh Parikh in his opening comments will be talking more on the financials and the international businesses and Mr. Dhingra will be talking more on the domestic pharma business, a special thanks to Mr. Bhagwat Dhingra who has taken time out to attend this call from his busy schedule at Chennai. Post their opening comments we will open the lines for Q&A. So without wasting much time I would like to hand it over to Mr. Rakesh Parikh. He will appraise you on the performance.

Rakesh Parikh

Thank you Monish and thank you Mr. Dhingra. I would also like to welcome Mr. Subharaman is joining us for the first time on the Company's conference call. Good afternoon to everyone. I am sure you would have gone through the results by now and the investor release, giving the highlights as well as the detailed performance and we hope you all have had the chance to go through it. The 4th quarter and the full year standalone and consolidated results published are audited. We have also shared the key details regarding performance of our subsidiaries in the Investor Release.

The board meeting for the same was concluded on this Saturday and we were pleased to announce that the board has recommended a dividend of Rs. 4 per share. This is the final



dividend which is amount to 200% along with the interim dividend given earlier which also was a 200% as Rs. 4. The total dividend works out to Rs. 8 at 400% on the face value of the share is Rs. 2. Also looking at the overall results if you see the consolidated revenues, Unichem has clocked Rs. 1,133 crores as against Rs. 1,080 crores last year. The PBT margin for the entire year for the consolidated group as a whole works out to 15.1% against 13.1% last year and the PAT margins are also up by more than a percent at 11.5% compared to 10.5% on a consolidated basis.

One of the major reasons why the consolidated result on the annual basis looks better than the standalone result has been the US subsidiary which has been the major contributor along with Niche Generics which has been showing an improving performance over the last couple of years now. In fact the US business on the whole has clocked more than 45% growth in Dollar terms and in Rupee terms it is coming to more than 55% growth. This is inspite of no new launches in the year though of course last year they have had staggered launches which all of these products are now available for the full financial year of FY14. And also looking at the approvals which we have got in FY14, we have lined up three more launches in the US. May be by the end of first quarter current year or the second quarter these will be launched so this gives us a confidence of maintaining the US performance.

Also to aid the US business in terms of the infrastructure the major item being R&D. As you are all aware the R&D center was shifted from Mumbai to Goa and the new R&D center the Centre of Excellence, COE at Goa has now been fully functional an operational for the past few months. This has resulted in filings after a lull of few quarters, filings of three ANDAs happened during the quarter and also three DMFs have been filed. As a result we now have 31 ANDAs filed and number of DMS stand at 35. This is an addition to the European and the other rest of the world market filings which are going on. But however as a result of this, the expenditure also has increased, predominantly the R&D expenditure and for the full year the R&D expenditure of the standalone company stands at 5% which works out to roughly about 4.7% of the consolidated turnover, it is up by almost a percent as compared to the last year.

Also to support our international business we have followed the strategy of being backward integrated by having our own APIs. The 2 API plants at Roha & Pithampur both of which are US FDA approved have been working at close to 100% capacity. As a result capacity of constrains we have decided to expand Pithampur plant and the expansion work is at an advanced stage and we hope in the next quarter the expanded capacity will be available to back our US plans.

In addition to that as we have been eyeing capacity expansion post the sale of SEZ unit. The Goa expansion plan has already started. We have received the basic approvals from GIDC being a leasehold land and the plans are being discussed and work has already commenced on the land including site development. Additionally to augment our API capacity and support our international business in the regulated markets we have concluded an agreement to acquire an API facility in the State of Maharashtra and the balance formalities predominately being the transfer of MIDC land is being concluded, after which the modernization and the modification



of the plant will commence. In addition to the Pithampur expanded capacity we will have the API backup for the US and the Europe business from next year onwards from the new site.

I would not preempt Mr. Dhingra as far as the domestic business is concerned and before that I would like to request Mr. Dhingra to give an overview or highlights of the domestic market and post that we can go to the QA session. Mr. Dhingra, over to you.

B S Dhingra

Thank you very much, Rakesh. A very good afternoon to everyone across country and across other parts of the world. As far as the results are concerned I am sure you must have gone through the results. Coming to the domestic business we have done Rs. 655 crores with an internal growth of around 3%. I want to show you the breakup why our growth is in single digits. If you look at the breakup of Rs. 655 crores out of that Rs. 376 crores has come from chronic business. And to appraise you further, out of the Rs. 376 crores, Rs. 86 crores last year in the month of June came under NLEM and where we have shown a de-growth of 15%. If you recall major impact of NLEM was into our driving brands like Losar as well as Trika and where the price reduction was to the tune of around 25% to 28%. We have tried to build it up through volume growth, but despite that we have incurred a de-growth of 15%.

I trust you remember that in the last year we have done realignment in our acute divisions and portfolio. Acute is a bigger market within the overall IPM but when it comes to acute of Unichem then only it is 40% of the total value, but looking in to the opportunities which were available with Unichem for the acute portfolio we have tried to reinvest ourselves in to the acute business. And last year post realignment our acute business has resulted in to 9% growth.

We have closed the acute business at Rs. 226 crores while you know the represented market is also not showing the kind of buoyancy growing just at 2.7%, but we were able to manage a growth of plus 9%. And let me also highlight when we look in to MAT March '13 AWACS ranking for Unichem; Unichem was ranked at 28th. Today Unichem is ranked as 25th company. So we have notched up three ranks in the market. That is basically because of acute growth which has helped us.

As you know friends that Losar and Trika are face of Unichem, and knowing the challenges in the market, this year we have realigned our chronic business. We have already brought in two new verticals in to chronic business and of which one is being dedicated solely for Losar and Trika. So there are ~300 odd people working across country promoting only Losar & Trika to each customer. Why it has been done? Because you know that ARBs are the "in things" and Losar being the oldest ARB had been doing well. But because of the onslaught of Telmisartan, Olmesartan or other newer sartans coming in, the share of voice and share of mind of Losartan has reduced. To revamp that share of voice and share of mind the expansion of these new verticals will definitely create a huge noise in the market levels and thus we will be able to get back the glory of Losar and Trika.

When I look at the impact of total NLEM in last year's business, as you know that we have got impacted by around 2.56% including the discontinued products and there was a ban of



pioglitazone etc. If I look into the total impact because of NLEM products as well as because of the banned products is around Rs. 16.78 crores last year which has impacted us by 2.56% to our total business. But if you look in to the AWACS number which are the secondary number it shows a kind of buoyancy for Unichem which clearly shows that Unichem has comeback when it comes to its acute business and Unichem is also trying to revive in to its chronic business. If you look in to the external number of secondary sales, these numbers are much more buoyant, rather we are growing at around 12% in to our secondary growth compared to the single digit growth in to our primary number.

I am sure that the Chronic realignment which we have undertaken is going to pave way for a very robust growth of our chronic business in financial year 2015, Keeping other parameters of performance in mind we can now move on to Q&A session. Thank you very much.

Moderator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Nishit Sanghvi from CIMB. Please go ahead.

Nishit Sanghvi

Happy to note that growth has started coming back in our acute therapy. Can we just throw some more light as far as breakup of the growth, as in how much would be volume component; how much will be price and how much will be new products?

B S Dhingra

I appreciate the question. If you look into volume growth in acute is around 7.8% and around 9% in value. Because in acute we did not get much of price rise last year. Let me also throw some light in to some challenges faced in the acute business, though we have started doing well but still we have three major challenges in front of us. You know that Unichem is known for Ampoxin, Unienzyme, and Vizylac in acute market which contributes around Rs. 140 crores. Last year with this alignment we could put all these three products in to growth trajectory but there are lot of things to be done in these molecules. We have given the work to agencies to map the market but this needs to be done in terms of using the equity of these brands on pan India basis across NGP, GPs, CPs and all specialists. Because we are looking whether we can leverage the equity of Ampoxin and thus can we make it a bigger brand? Because currently if you look in AWACS data Ampoxin is almost Rs. 64 crores brand for us.

When it comes to Unienzyme which is Rs. 53 crores and Vizylac around Rs. 25 crores brand. So all these put together it amounts to ~Rs. 140 crores. The brand equity is very, very large seated across in the country and thus we want to leverage that equity. Therefore may be by September, October we will also work to see that how we can leverage the equity and convert this equity by benefitting into a more robust growth in the acute business. Let me also reiterate that last year the alignment has yielded some kind of result. But if you see the results have not come across all the molecules. So this is the year when across four verticals we will be able to leverage the gain of realignment. One more point I would like to highlight in acute is that, during last year we have also introduced the CritiCare division which deals with the critical patients now we call it Life Care Division. Last the year the division had struggled in terms of manpower recruitment and also in creating that kind of face value in the Criticare business which Unichem was not having.



But this year that business is also turning well and I am sure that we will be able to double up our revenues from life care business this year because now our team is well set; we have created our presence, we have got entry in to some good Corporates like Apollo where our brands have started moving well. So having said this, I agree that whatever you are seeing in terms of plus 9% or 7.8% volume growth in acute is a beginning for Unichem. There is a long way to go and I am sure that in coming quarters you will find a very good positive results.

Nishit Sanghvi

What kind of sustainable growth do you foresee for probably individual franchises one in acute and other in chronic?

B S Dhingra

As you know Chronic is a long term market and chronic is a market which is growing faster than acute market even in IPM. And similarly if you look at Unichem, internally we are having 57% contribution coming from chronic market and 43% business coming from acute market. But when we look in to chronic business our challenges are more in to anti-hypertensive whether it is Losar or whether it is Telsar or Olsar or all three ARBs. While Losar has suffered an NLEM setback and also a setback of product lifecycle because of lot of noise created by Olmesartan and Telmisartan; Losar competitors have created noise in to that segment.

If I look at the Losartan market it is almost ~Rs. 500 crores and out of that Unichem has around Rs. 165 crores market share. Keeping this in mind when I gave this task to IMS ORG they went Pan India and they took three months of time in talking to customers, retailers, wholesalers, doctors of all specialties and then out of that project they have suggested that doctors still believe that Losar is at par with Telmisartan and Olmesartan when it comes to end patient benefit.

So taking cues from the IMS ORG survey and our internal surveys we decided to go all out for Losar and therefore we are finding that in the month of April we could get a kind of positive response and I am personally in Chennai to meet around 14 cardiologist today evening taking their feedback on how we can put Losar back in to growth trajectory.

So summing it up when it comes to chronic; chronic is definitely going to be a big business tomorrow. Therefore we have seven verticals in chronic today, as compared to four verticals in acute because we want to see that can we become a strong company in antihypertensive? And can we also leverage the potential of Statins in the market? And the third, can we also leverage the potential of anti-diabetic drugs? I am talking of oral anti-diabetic drugs, OADs. And there we do not have much presence and our portfolio has been de-growing. So by bringing one more vertical with 300 people deployed. Now we have four vibrant verticals manned with almost 1180 people who are focusing at the right kind of molecules. I am sure that the results for coming quarters will definitely show a ray of hope for Unichem in terms of chronic and we will be as buoyant as other companies are in chronic.

Nishit Sanghvi

So you are seeing the growth in acute and chronic to be sustainable. So acute growth of 9% odd you are saying it is sustainable in nature going forward and so far chronic also in line with the market a double digit growth probably sustainable for Unichem going forward?



- B S Dhingra** Yes definitely.
- Nishit Sanghvi** You have increased the R&D expenses. Now any particular areas where the R&D expenditure has increased? Or are you working on any particular therapies or so this is mainly for the US market or where is this R&D being channelized?
- Rakesh Parikh** Our R&D strategy is to work where we have strengths in terms of the product development and manufacturing advantages plus what is the competitive scenario whether we are cost competitive or not. We identify the molecules and considering the markets across Europe and US to get a better benefit and mileage out of the R&D expenditure. You will find a lot of similarity between the regulated markets whether it is US or Europe. It is not right to say that we are channeling only against US. We also keep the European scenario in mind and significant portion of the R&D is also for Europe, though not as much as US. Also being a later entrant in the US our strategy has been initially to go for those molecules which may be simple or which have already gone off patent and me-too type what people call. But where we are having cost competitive and we are backward integrated. In fact that is why we are keeping our API plans on hold till the new capacities come and not selling APIs in regulated markets like Western Europe or US.
- And of this whatever molecules we had identified we have filed 31 ANDAs and another about 10 to 15 are in the pipeline. We hope to file at least one or two every quarter. Out of these what we expect in the next year is that at least a couple of them which are slightly more complex or difficult to make generics and if everything goes well then they would be included in the filing of 8 to 10 molecules which are expected to file in the current year that is FY15.
- Nishit Sanghvi** But this will be largely in the oral solid space?
- Rakesh Parikh** Yes, right now they are in the oral solid space as far as the immediate filings are concerned. The new R&D center which we have developed at Goa, is also working on creams and ointments. Also in the oral solid there are different types like sustained release or extended release; once a day kind of a thing which we are looking at and going forward the next lot of molecules which we have identified will come from say 2017 to 2020, these would include things like injectables for which the facility has been made available at our new R&D center at Goa.
- Nishit Sanghvi** You have new injectable plant that is going to come up in Goa or you have already?
- Rakesh Parikh** We have R&D facility at Goa.
- Nishit Sanghvi** R&D would be working on those molecules, right?
- Rakesh Parikh** R&D is working on those molecules and we already have the injectable facility at Ghaziabad which is also an US FDA approved plant.



- Nishit Sanghvi** And the new API facility that you have acquired will be largely again doing solid dosages or any particular therapy?
- Rakesh Parikh** It will aid our Roha and Pithampur. Roha is in the heart of MIDC working three shifts at 100% capacity so it is difficult to expand further. Pithampur is also running at full capacity where we are doing expansion right now which will get completed soon, may be by around July, August the expanded capacity at Pithampur will be available.
- The new facility what we have acquired is more a kind of a semi closed down or stressed asset . So once the formality which is transferring MIDC land in Maharashtra and once those transfer formalities are over we would go for modernization and modification of the plant to meet our requirements. It can be either API Intermediates or products backward integrated with Pithampur or Roha plants. And then subsequently couple of years down the lines we will also explore the option of approvals if required.
- Moderator** Thank you. We have the next question from the line of Ravi Shenoy from Motilal Oswal Securities Limited. Please go ahead.
- Ravi Shenoy** Wanted to get some idea as to how many would be the average molecules that we had in the US during the quarter?
- Rakesh Parikh** Totally the company has launched 10 products. These were all launched last year that is FY13. No new launch in the current year but we did get some approvals for which three products will be launched in FY 15. In the current year we had 10 products available in the US.
- Ravi Shenoy** So FY15 that number could be 13?
- Rakesh Parikh** Yes it will be 13, unless some new approvals come earlier in the first half which can be launched too.
- Ravi Shenoy** Wanted to get some sense on the number for FY14 if these three products were to be launched what kind of scope would be there would this be a million dollar each?
- Rakesh Parikh** Yes easily. It would be on an annualized basis so depends on when we launch. Right now the indications are that we will be able to launch them anywhere around June, July or so.
- Ravi Shenoy** So on an annualized basis one million dollar would be a fair number to assume?
- Rakesh Parikh** No, what we are saying is that last year we have grown at about 45% to or so. Now, we are trying to see whether we can continue to maintain that momentum of growth for even a year or two.
- Ravi Shenoy** For your subsidiaries wanted to get some idea about the conversion rate that we have used?



Rakesh Parikh The conversion rate is as per the accounting standard the average rate which we use for the P&L items. So that will be in line with almost all the Indian companies. And if you want an exact rate which we have used maybe I can give that offline. As per the AS 11 we are suppose to use an average rate which was prevailing over the year for converting the P&L.

Ravi Shenoy I will get in touch with you offline for that. Also wanted to get some sense on the other income which has been high during the fourth quarter?

Rakesh Parikh If you see, one is obviously we had the exceptional gain which is reported separately from the sale of SEZ units. Though the company decided to give dividend, the dividend was declared only by the end of January. That was roughly about Rs. 40 crores out of the Rs. 165 crores which we had got. So the balance is cash equivalents with us. And the interest as well as the capital gains from investing in short term surpluses, mutual funds, bank deposits, and AAA Corporate Deposits that treasury income has been high in the last quarter.

Also there was a property which the company had sold, basically non-manufacturing asset in nature. We had an office and a training center in Delhi which the company decided to sell. It was more of a residential area and we already have another office in Delhi, hence we decided to relocate to the other office. As a result of which this property was sold and we also sold one property in Mumbai and that is what has constituted this other income, which has come in the quarter. The sales proceeds were subject to tax and as a result of which the tax amount has also shot up significantly in the fourth quarter.

Ravi Shenoy So of this how much would be a recurring kind of other income?

Rakesh Parikh Normally if you see our other income for the quarter has been somewhere around Rs. 2 to Rs. 3 crores . So normally varies between that and at max it can go up to Rs. 5 crores or so.

Moderator Thank you. The next question is from the line of Ashish Rathi from Emkay Global Financial Services. Please go ahead.

Ashish Rathi Wanted to check on the chronic part of our portfolio. How much is the volume growth say for FY15 in chronic if any?

B S Dhingra If I divide chronic into segments into two parts one is called Cardio Diabeto another is called CNS. When I look in to the overall volume growth for Cardio Diabeto which we have projected to the management comes around 15% this year. And on the other hand we are also eligible for price rise in Losar and Trika where we had a cut because of NLEM, the price rise is equivalent to WPI. So put together our volume growth and value growth is going to be more robust in the chronic because of numbers on volume growth and second because of the WPI price rise equivalent to 6.3%.

When it comes to the other chronic therapy that is CNS, our volumes are bound to grow around 18% to 20%. The reason being we have created one more vertical which is currently being



launched in North and East and after first half of the financial year we will be launching in South and West. So that vertical will also help us to penetrate more in to CNS business which was a languishing business for us contributing hardly ~Rs. 48 crores to Rs. 50 crores. In India the CNS market is also showing buoyancy, we thought to keep a pace in that market and therefore I am sure these initiative are going to help us in our volume as well as value growth in to CNS business.

Ashish Rathi

My question is more from the perspective that now that we are done with the NLEM impact as base for FY14. Can we assume this to be as our new low pricing base and going ahead we can take those price increases as you mentioned just now on the WPI basis? With volume growth being there can we assume like a double digit growth for the chronic segment for say FY15?

B S Dhingra

Yes, that is what I have told you I have given the estimates. If I look in to my growth of around 15% in volume with a price increase of 6.3% and last year my chronic portfolio which was under the NLEM was almost Rs. 89 crores. So this year the total NLEM post volume growth and post value growth should touch around Rs. 106 crores, Adding around Rs.17 crores in terms of value. I have also mentioned that we have created a team for Losar thus the balance team is working in other growth trajectories that is our Unistar, Tolol etc. So this year we are pretty confident of getting a double digit growth in chronic and we are trying to see that can we match at least the represented market growth this year in to our cardio diabeto as well as of our CNS business.

Rakesh Parikh

Just a small clarification I think what you are discussing is that NLEM impact last year kicked in from somewhere like June, July though on an annualized basis you are talking of double digit growth but will it be uniform across the quarters or on an annualized basis?

B S Dhingra

Last year first quarter NLEM came in the month of June. Losar came in the first list and then came Alprazolam and therefore our impact started from the month of June. When I look in to quarter one April and May was with the old price and even in June a part was because of the old price. In quarter one the growth may not be in double digit, but from quarter two, quarter three and quarter four onwards where we will be more buoyant and thus on annualized basis we will definitely show a very positive double digit growth.

Ashish Rathi

Secondly on the change that we were doing from the CNF to the distributor what is the status there right now are we done away with that or still some part to go and what is the impact say in FY14 in your sense and what can we expect for FY15 from that side?

B S Dhingra

The exact numbers are that the impact on FY14 was to the tune of Rs. 4.5 crores. May be we have to do a plough back. So if you looked in to domestic performance which I said is Rs. 655 crores there is a Rs. 4.5 crores plough back impact and then there is around Rs. 16.5 crores impact of NLEM and discontinued products. So put together we have lost around Rs. 20 crores because of external and internal reasons. Now coming to your question of conversion there are five major conversion going on as of now. When we look at our internal sales ~45% sale currently is happening through distributor network and 55% sale is happening through CNF



and CA network. So the 45% conversion has been planned by the end of September, October, so hopefully we will be able to complete by that time. But it will definitely have some impact in terms of value this year though we are trying our best to manage very efficiently through our supply chain and distributions so that the impact can be minimized. But on the other hand quarter one and quarter two are the peak season for us so we do not want to suffer because of any shortage of stock at distributor therefore we are managing it more efficiently to see that we cater the best of products in the market place and secondly, we also have less impact in terms of plough back.

Rakesh Parikh

That roughly explains your question, The difference between the primary reported sales of our numbers to what AWACS reports the conversion of at least five parties happened in rest of Maharashtra as well as Andhra Pradesh and Bihar in the month of March and that is why we could not make it up being hardly one month there and that is what Mr. Dhingra talked about Rs. 4.5 crores that was lost otherwise the overall the growth would have come at least 2% to 3% much closer to the AWACS reported number.

Ashish Rathi

On US how much are pending filings?

Rakesh Parikh

Out of 31 we have 17 approvals which includes two tentative approvals, those we cannot launch till the patent expiry. That would mean 14 pending approvals.

Ashish Rathi

What will be the average age of these filings?

Rakesh Parikh

It would vary of course the last one which we have filed is in the last quarter. The earlier ones would be anywhere between one to two-and-half years now.

Ashish Rathi

And the quality of these filings, are these still like the early ones which we did a more genericize products or have they improved the quality of filings are we looking at any lesser competition products from these filings?

Rakesh Parikh

There are lesser competition products though they are basically the older products and where we feel reasonably confident about the cost competitiveness and the margin.

Ashish Rathi

And what is the plan for the filings in terms of quality going ahead are we looking at?

Rakesh Parikh

Out of the balance around 8 to 10 which we are trying to file in the current year, there at least a couple of them which are slightly more difficult to manufacture because of which the competition may be less and if it is there on the price front it may not be as severe as compared to the other ones. There are about at least two, three which are difficult to manufacture products.

Ashish Rathi

And what category will these be in terms of therapeutic category?

Rakesh Parikh

Therapeutic category would be GI , in pain management and musculo-Skeletal type as well as in the cardiac side.



Ashish Rathi On the CRAMs business how is the profit performing there any good order flows we have seen recently and what is the outlook for say FY15?

Rakesh Parikh One is that we have pointed out earlier and we have seen in the earlier quarters there was a slight hit which had come as far as the contractual business was concerned predominately from North American parties. The European business is basically flattish and just to reiterate to get out of it we have to get a new product or a new party for which discussions have been going on.

So to answer your first question, definitely for the full year there has been almost a flattish to a de-growth kind of a scenario as far as the contractual business is concerned. But on the other side what has happened is that there are a couple of negotiations with the new party as well as with the existing party for new products and one of the indication of that is the operating income which has increased in the fourth quarter. So what we do is we develop a product to enable them to file along with the site variation and which we do at a cost plus basis and which is shown as the operating income which we have seen has gone up in the fourth quarter. Part of the result is because of that and if things go well and all then there is a likelihood that in the second half there is a good chance of us getting this new products or new party as far the contractual business is concerned in which case we may see a jump.

Ashish Rathi What is the full year number for formulation contractual business?

Rakesh Parikh It will be something about Rs. 100 crores, may be Rs. 110 crores or something.

Ashish Rathi And going ahead can we expect some growth on this say FY15?

Rakesh Parikh In FY15 in the second half these couple of parties and products where we are at an advanced stage are quite likely to materialize. In that case there there will be a spurt when the orders start coming in and if it comes let us say in the early part of second half then we can even end up with a 10% growth.

Moderator Thank you. We have the next question from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru You said three launches where do you see this number going say for the full year from current \$12 million rate and especially on the products I mean understanding from the way that the kind of products that you would have in the market we may see some smaller companies also entering in those products. So is there any risk to erosion in the existing products?

Rakesh Parikh Normally, our run rate if you see for the ten products has come to about \$1.2 million it is a simple calculation because in our case what is happening is that we have a tie ups with the distributors and the retail chains and that is a model which we have adopted. The manufacturing is done here and it is sold by them and our accounting is done net of all these charge backs and other things which are quite heavy as far as the distributors are concerned. So assuming the same run rate also to maintain 25% to 35% growth rate should not be difficult. In



addition to it we are trying to see whether we can improve the market share In our existing products. So accordingly that would answer what kind of numbers we would be able to see in the next year in FY15 and by chance if any additional approval also comes through let us say by the second quarter or so we will try and see whether we can launch it in the same year.

Coming to your next question these are the products which have had filings well upwards of 10 in some case 20 also, but about 3 to 5 players are active and since the erosion is already happened the price discovery has already been made. So we do not see any major downside to the prices. The only risk factor we see is that if further consolidation happens because of the consolidation which has happened in the US as far as the distributors and the retailers are concerned because of that if they are able to extract better price negotiation then perhaps that could change some equations whereby we may be forced to have a downward price revision. But right now the existing consolidation which happened have already been factored in to the current year results and we do not see any major risk.

Girish Bakhr

Is there any particular distributor that you are pushing products through mainly?

Rakesh Parikh

We have relations with the large Distributors and the large retail chains and one or more ANDAs are done through some of them. So with each one we have a tie up for an ANDA though it is on non-exclusive basis.

Girish Bakhr

Any idea if there are some products which probably are big enough like Memantine, things like you have fenofibrates and all or even some products like Aripiprazole. These kind of products would you be a key participant say in the first or second wave of generics in those products? Because from the size wise they are big but I will expect competition would also be huge in those?

Rakesh Parikh

The size is big; competition is big, we have already shared our pipeline with distributors and retailers So it would also depend finally with whom we are able to get that tie-up, may be as a second or a third supplier and then as and when the opportunity comes we would like to increase the market share. In which case there is a good chance that some of these products may become much larger than the average of what we are having now and we are really looking forward to that.

Girish Bakhr

Any color on the Brazil how that has been going on?

Rakesh Parikh

Brazil has been challenging market and we have two products in the market and are nearly a test launch kind of a thing. So those products have been able to sustain as a result of which we have been able to contain the losses and the losses have not increased compared to last year. But we have recently got one more approval from Brazil. Now we are looking to launch that product around June-July and that could help plus there is a good chance that we may get another couple of approvals. So of the products which we have filed and if we get the approvals there is a good upside which can come from there. It all depends on when these approvals come.



Moderator

Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal

On Telmisartan versus Losartan that you mentioned in the call earlier. Just couple of clarification there. First, have the other companies also joined you in promoting Losartan as a market now and when you talked to us what kind of pattern do you see are there doctors who write both Telmisartan and Losartan with them prescribing Telmisartan more than Losartan or do you see more number of doctors who exclusively write Telmisartan?

B S Dhingra

Very good question Mr. Anubhav. Because if you look at the total market it is almost Rs. 2,000 crores market for ARB out of that the biggest pie of the market is with Telmisartan almost say Rs. (+1,000) crores and the second best market is with Losartan around Rs. 500 crores and third is Olmesartan Rs. 380 crores. As I had mentioned earlier, one thing is called share of voice and other share of mind. Because Losar is the face of Unichem it is bread and butter for Unichem so we are the only company being aggressively talking about Losar.

If you see that other players may be Zydus, may be Ranbaxy or may be even Sun Pharma has not paid much attention to Losartan market and therefore when I interviewed some of the doctors personally other day in Delhi and today I am going to meet many doctors in Chennai. I could understand from them that all the ARBs whether it is a Losartan, Telmisartan, or Olmesartan have the same efficacy and result for the patient. Rather many of them they have voiced that if Losar is not able to do well it is because of Unichem. Because being a major brand for Unichem, Unichem could not create that kind of share of voice which it required because none of the other competitor had an interest in to Losartan. So when we have done the special vertical promoting Losar for us and other group products, it is going to have an advantage for us. As far as my understanding goes none of the other competitors is raising their bar for Losartan and they are busy in promoting Telmisartan or Olmesartan. So I feel that can give us a very big advantage in terms of the churning the numbers and creating a prescriber base and creating a huge prescription mileage in favor of Unichem.

Anubhav Agarwal

What kind of pattern at the doctor level do you see?

B S Dhingra

For example Olmesartan is in to double digit blood pressure reduction which means that if a patient come at 165 to 100 the doctor prefers Olmesartan; a patient who comes with diabetes and hypertension he goes for Telmisartan. A patient who comes with stroke problem or a patient who comes with a coronary artery disease; or a patient who comes with a peripheral hypertension these all patients go for Losartan molecule. Doctors still have a difference, including cardiologists who have more preference for Losartan. But what they shared with us is that because of our share of voice has gone down that has reduced the share of mind.

Anubhav Agarwal

So when I look at the market I see the diabetic hypertension is that a large piece of the market at which Telmisartan has captured most of the market?



B S Dhingra

No, diabetic hypertension per se is not a larger piece of market. It is the onset of diabetes which is becoming a market. And let me be honest in sharing with you that Telmisartan does not have any study as of today in favoring a patient who is diagnosed with diabetes and with hypertension. World over if you look all the advanced countries including US, Losartan is number one ARB. In around eight countries world where Losartan is number one molecule. So Losartan is backed up with lot of data. We have done a survey through IMS ORG which has gone to all India with many specialties including family physician to consulting physician, cardiologist, diabetologist, neurologists and nephrologists and they have projected a report that doctor does not differentiate between Losartan, Telmisartan, and Olmisartan. For them all the Sartans are the same but for Losartan they have a better weight because it is backed up with lot of international study and data.

Anubhav Agarwal

And clarification on the same thing, when your new sales force of the division so their first effort is to convert the same doctors who is prescribing both Telmisartan and Losartan right now to shift their balance more towards Losartan?

B S Dhingra

If there is a Rs. 500 crores market seated of Losartan there is a doctor who is already writing Losartan. When I go and tell that doctor; and if I am aggressive and I am increasing my share of voice a doctor writing Sun Pharma brand, Zydus brand or Ranbaxy brand he shifts to Unichem, I get a very good shift from existing Losartan prescriber in my favor.

Because my attempt is to see if I can grab a more market share with Losartan market and that is possible. A doctor who has a preference for Losartan and if I go and create noise for Losar he will be the first one to shift to Losar and then backing it up with lot of studies which is available internationally that how Losartan is also good in to may be conditions like heart failure, or in condition like stroke. Here a cardiologist or a diabetologist or neurologist is getting targeted too. And I have also introduced product like Trilosar last year and that product has also started doing very good. In the month of April we are able to sell around 40,000 unitage of the product. That speaks that when it comes to severe hypertensive patient or uncontrolled hypertensive patients where doctor want to use a combination therapy by noise level I will be able to penetrate in to combination therapy also.

Moderator

Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak

On the presentation of your Page #10, just to understand better there is a table which says Unichem sales in to non-NLEM and NLEM. Want to understand that out of the entire Losar group sales of about Rs. 160 crores the entire molecule is not under DPCO because you show only about Rs. 83 crores under NLEM?

B S Dhingra

No Rs. 83 crores is total, Losar plain is Rs. 61 crores that is Losar 25 and Losar 50 these two strengths came under NLEM. So therefore the total Losar what you rightly said is around Rs. 165 crores out of that Losar is Rs. 61 crores is under NLEM.



- Dheeresh Pathak** So 25 and 50 came under the NLEM only half percentage came under NLEM, right? And what about Ampoxin that also shows only Rs. 10 crores out of total of about Rs. 60 crores under NLEM?
- B S Dhingra** Ampoxin has come out of DPCO and Ampoxin is not under NLEM.
- Dheeresh Pathak** But DPCO shows Ampoxin under price control?
- Rakesh Parikh** No, there are other anti infectives like cephalosporin which are part of the NLEM. Ampoxin is a combination of Amoxicillin and Cloxacillin which was earlier under DPCO. Now that has come out of it.
- Dheeresh Pathak** Ampoxin is not ampicillin?
- B S Dhingra** No, Ampoxin is Ampicillin and Cloxacillin but it is not in NLEM. It has come out of the earlier so called DPCO list.
- Rakesh Parikh** I think what is happening is in that anti-infective category we have shown Rs. 10 crore under NLEM but we have some cephalosporin which are covered under NLEM. So that is the part of that.
- Moderator** Thank you. The next question is from the line of Hitesh Mahida from Antique Stock Broking Ltd. Please go ahead.
- Hitesh Mahida** What is our outlook for Niche Generics in FY15? You are sort of returned to profitability during the year?
- Rakesh Parikh** As far Niche Generics is concerned the focus so far was to turn it around and make it profitable and to use all the available benefit we could have including the manufacturing plant in Ireland, which is doing more of packaging. And on a consolidated basis the results are even better, only the one-third of their output is taken from Unichem India and the balance is been done by them and through the other tie-ups they have. The focus is shifting to two things. One is Europe as a business as a whole where Niche Generics continues to play the role to what it used to play in the past
- We have another subsidiary which has been incorporated couple of years back in Ireland. This subsidiary will participate in the tender business. It has started participating and one tender was awarded. As far as Niche Generics is concerned now the focus will shift more on the topline growth. There are a couple of molecules for which we have approvals and we feel it can make sense. This will enable it to grow further on the topline, in other words having had a flattish topline growth with an improvement in margins and bottomline last year this year the focus we are going to see that can we achieve a double digit growth at the topline so that there can be a significant increase in terms of the margin in the bottomline.



- Hitesh Mahida** What will be the total amount which was paid to acquire the API facility and how much do we plan to further invest in the plant?
- Rakesh Parikh** If you see as on date the total expenditure that we have incurred for acquisition is around Rs. 20 crores and this includes paying off the lender as well as to the owner and the incidental charges in terms of various other services that we have taken which is very small. And an equal amount or more is what we are looking for the purpose of modification and Modernization and start the plant up and running and then further expansion can also be made later on.
- Hitesh Mahida** What is the current MR strength, and do we plan to add any further MRs?
- B S Dhingra** We have already added some MRs which is seen in the payroll post which is showing little high in the month of March in the last quarter. We have already added around 300 plus MRs. Currently we have around 2400 plus MRs with us and as I had mentioned in CNS division as of now we have launched a vertical in to North and East. After first half we will be launching and expanding the same vertical in to West and South which may add another may be 70 to 80 people. So put together we have plan this financial year that we are talking about another 100 people and last year in the month of March we have added already 300 people.
- Hitesh Mahida** What is the R&D guidance for the coming year?
- Rakesh Parikh** We have come roughly to about 5% of our turnover though for the quarter it was almost as high as 7%. But going forward and looking at the increase in topline growth we expect it to remain at around 5% of our total turnover.
- Hitesh Mahida** What is the total CAPEX we are looking for FY15?
- Rakesh Parikh** It may be difficult to put a number for FY15 because the projects which we have undertaken like the API and the Goa expansion would be spread over a period of two years. We are looking at around Rs. 300 crores or so which includes getting the new capacity done for the SEZ that we had sold, this will take about a year may be it may spill over to April next year. Similarly the API acquisition we have done, we have kept some amount for modernization of that plant. Besides this the current capacity expansion which is going at Pithampur API plant, the biosciences project at Goa and also the routine maintenance CAPEX at other plants.
- B S Dhingra** There is just one clarification the manpower what you asked about the MR, the 300 people which got added in March'14 and 100 another will be getting added in FY15 it will make total strength to around 2800 plus.
- Rakesh Parikh** For the year end total was around 2700 including the MRs that got added in the month of March and another 100 will come in later in FY15. So it will be ~2800.
- Moderator** Thank you. The next question is from the line of Rahul Sharma from KarvyStock Broking. Please go ahead.



- Rahul Sharma** In last year we had around close to 15 million from new CRAMs from Ghaziabad and how much was it in the current year and what is the old CRAMs revenue?
- Rakesh Parikh** Basically in FY14 there was no new CRAMs business which came in. In fact the off take was reduced because of the consolidation which happened in US. This year roughly in Indian rupees the contractual business would be around Rs. 110 crores or so whereas last year it was I think upwards of Rs. 125 crores almost Rs. 130.
- Rahul Sharma** And how much was Ireland for the year?
- Rakesh Parikh** Ireland is practically negligible. Ireland has done around half a million Euro. Around €488,000 is the topline.
- Rahul Sharma** This 300 plus 80 people is mainly for your older brands of Losar and Trika or how is it split up the new MR or is it on acute and?
- B S Dhingra** The total expansion this year in March as well as the whole year is only happening in to chronic. In the last financial year we had already done an expansion in the acute business. The existing work force from the senior team will be working and focusing on Losar. I have not removed that team from Losar. The new team is coming in to the other growing segment which was earlier getting promoted together with Losar. So in other words just to reiterate further Losar and Trika is getting promoted by the earlier team which have been in to system the new team has come in to promoting the other growing basket which was earlier getting promoted along with Losar and Trika.
- Rahul Sharma** So basic focus is on your CVS cardio plus CNS; am I right?
- B S Dhingra** In CNS there are almost 170 people which we are planning to add and then balance 230 people will come in the cardio area. CV life division is where we are promoting Losar and Trika which already had 301 people so those people continue to promote Losar and Trika. It is the other products which were getting co-promoted with Losar are getting a sharp focus through the new team. In other words a person who knows who are the doctors currently prescribing Losar and Trika and who are the doctors not prescribing that they were prescribing other competitor brands.
- If I would have picked a new team in to Losar then getting the kind of growth trajectory that we are aiming in terms of volume and value would have been difficult. So strategically we have put the old people in to Losar and Trika because they are very enthusiastic because now they have to only time those two minutes, three minutes, five minutes available with the doctor to talk only on Losar and Trika.
- Moderator** Thank you. The next question is from the line of Chirag Dagli from HDFC Asset Management. Please go ahead.



- Chirag Dagli** Did you indicate the CAPEX number at Rs. 300 crores?
- Rakesh Parikh** That is over the two-year period.
- Chirag Dagli** And where exactly will we be spending apart from the API piece?
- Rakesh Parikh** One major thing is the Indore the SEZ facility that we sold so we are building additional capacity equal to that plus another incidental things and the warehouse and storage etc at Goa. And the second is the API acquisition which we mentioned earlier in the call. Third is the expansion which is going on at our Pithampur API plant. And fourth is Biosciences. So these are four projects all of which have commenced and balance is the normal maintenance and other CAPEX.
- Moderator** Thank you. The next question is from the line of Ravi Shenoy from Motilal Oswal Securities Limited.
- Ravi Shenoy** For the CAPEX of Rs. 300 crores wanted to get a sense how much debt would be required?
- Rakesh Parikh** No, we would not require because we have around Rs. 100 crores of cash and cash equivalents from last years' performance as well as the sales which we have done. And normally our accruals are there to support. On an average we have been spending almost about Rs. 80 crores to Rs. 100 crores for CAPEX and which has been made out of internal accruals. So those accruals are expected to continue and grow and cash equivalence which we are having from the sale proceeds will be sufficient. We do not envisage to take any debt for this CAPEX. And some of it may even perhaps go beyond two years, we are not sure as it depends on how we go about the phases or so.
- Ravi Shenoy** Your balance sheet shows about Rs. 52 crores of cash equivalents at the end of the year. We are talking about Rs. 100 crores cash equivalent here?
- Rakesh Parikh** May be it is shown in the loans and advances section because there typically will be cash in bank and also there would be some cash which technically would spillover for more than a year and we do not show it as short-term asset.
- Ravi Shenoy** So the sales proceed would be received in tranches is that what you are saying?
- Rakesh Parikh** No, not the sale proceeds. What happens is that there could be certain long-term investments which have got put call options or premature withdrawal facilities available or something to capitalize on the interest rates which were higher during the last few months. But overall that is a cash equivalent. May be if you want further details we can give you the exact details off line on those cash equivalent.
- Ravi Shenoy** This year we have increased the payout, wanted to get a sense whether we would be able to maintain that kind of a payout?



- Rakesh Parikh** Typically, the company's policy has been to keep the payout anywhere between 25% to 40% depending on various other factors. I think we would stick to it but I believe what the directors considered when they were giving interim dividend and it was discussed at length is arising more out of the benefit we got from the sale of that SEZ unit. What we thought is that since the SEZ unit was sold at a reasonable profit it was thought of sharing it with the shareholders and looking at our expected future approvals and my CAPEX plans. So that is the reason. If you are taking the payout ratio excluding exceptional items obviously it looks high with exceptional also as a percentage it may look high. But otherwise as I said the policy has been 25% to 40%. And the policy to the best my knowledge is expected to continue,
- Moderator** Thank you. The next question is from the line of Mr. Ashish Rathi from Emkay Global Financial Services. Please go ahead.
- Ashish Rathi** Wanted to check on the margin, we have done around 16% margins for this year full year consolidated and going ahead definitely domestic outlook brighter, your subsidiaries getting better. Can we expect like a 200 types basis point expansion for the FY15 with the difference between consolidate and standalone now coming lower?
- Rakesh Parikh** Our endeavor is that and we are working towards that. That is what we have been trying to guide also.
- Ashish Rathi** On the tax rate 23%, 24% will be the range or will it increase with subsidiaries now contributing more?
- Rakesh Parikh** No, we do not expect it to increase because at least for the immediate year we are talking of unabsorbed tax losses or of subsidiaries from the earlier years. MAT being at 21% and deferred tax being of 1% or 2% that comes to 22% to 24% is normally what is the tax rate expected in going forward.
- Ashish Rathi** Any plans of reporting consolidated results on a quarterly basis because they are become increasingly contribution is coming to higher?
- Rakesh Parikh** Right now there are no plans, it is up to the Board but in the investor release we have already been sharing little information and maybe we can think off adding more on in the investor release.
- Moderator** That was the last question from the participant. I would now like to handover the floor back to Mr. Monish Shah for his closing remarks. Over to you, sir.
- Monish Shah** Thank you moderator and Sriram and our friends at Anand Rathi for organizing this call and thank you to all the participants. If you have any questions left please do write to us or call us we will be happy to answer that.



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Moderator

Thank you, On behalf of Anand Rathi Shares & Stock Brokers Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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