"Wockhardt Limited - Perspectives on the Business – Investor & Analyst Meet"

August 22, 2012

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MR. GIRI GIRIDHAR – CFO

Giri Giridhar: Good evening, ladies and gentlemen. I am Giri the CFO of the company . Many thanks for the overwhelming response to our invitation for this meet. We have with us our Chairman, Dr. Habil Khorakiwala and Managing Director, Dr. Murtaza Khorakiwala. We want to use today as a forum to talk a little bit about our perspectives on the business. You have seen our results actually, demonstrating sustained financial performance and we remain confident about the future.

In terms of today, what we want to do is that we will kick off the presentations firstly from the Chairman, Dr. Habil Khorakiwala and then followed by presentation from Dr. Murtaza Khorakiwala from the operating side of the business. We will have the question and answers at the end followed by high tea. May I then request our Chairman to take the stage.

Dr. Habil Khorakiwala A very good evening to all of you.

We went through a very challenging and tough time over the last three years. This has helped us in a way to relook internally at ourselves. Typically, whenever you have these kind of challenges there are two possibilities: One, when the challenges are great and people get overwhelmed by the challenges and it paralyzes the people to do things. On the other hand, as we did, we look at the challenges and try to face it upfront and use that as an opportunity to reinvent ourselves, look at everything which we are doing and in the process try to create a different new organization

I think a lot of stuff we did during these last three years and this is something which we will share with you. And I would be very happy afterwards to respond to any clarifications, questions you may have. But, one of the most important thing which we did at the very beginning was we created an organizational theme 'More and More with Less and Less'. I think what has happened over the three years is that we have learnt to use our resources, our abilities I would say, far more effectively and efficiently than we have done ever before. And it has propelled the whole organization of nearly 7,000 people to come together, to create the kind of an organization which we have created during these three years.

Because many of you maybe not fully familiar with the organization, so I will just in a few minutes highlight what we are today. We have a global presence including manufacturing facilities in India, the US and in Europe, especially in UK, Ireland, France and in Switzerland. In the USA we have two offices; one at New Jersey at Parsippany and another manufacturing site near Chicago at Morton Grove. And what you see in green is where we operate as a business. That is most of the Rest of the World countries. We are there, some in South America, some part of Africa, some part of Russia and other CIS countries. We have about 1,200 to 1,300 people outside India working in our own manufacturing facilities in Europe and the US. . And out of these 7,000 people we have about 21 nationalities representing and working together as a team for Wockhardt. We have 12 manufacturing sites. Nine of them are in India. We have one in UK at Wrexham, Manchester and one in Ireland near Dublin. The one in UK manufactures the injectables and the Dublin facility manufactures creams and liquids and the one in Chicago, Morton Grove manufactures liquids. In India we manufacture solid dosage form, capsule, sterile injectables, API, biotech products.

Three years back, we had principally a single research centre in India and we had a very small research ongoing in routine development facility in UK. But during this period we created and upgraded our UK facility to certain kind of R&D work we are doing there. And we started a year back, a research center in USA also.

The purpose of creating this worldwide research organization – we have got 600, majority of people work here, we have a relatively small number of people working in the overseas R&D labs, but there are certain talents which we need for some of the technologies we want to develop and we are developing. And that is why we created these two additional research hubs to work together with our Indian research organization. So, from that point of view what we are trying to do is to access the science wherever it is available.

And I think if you look at Wockhardt's history, last ten years we spent a lot of our resources and time in terms of creating our geographical footprint. We acquired companies in US, in Europe, a large number of them, say 5-7 companies that is what we did. And 20 years back, we were purely an Indian company. Today, we are being transformed more into global company with 3/4th of our business outside India. So, I think going forward, we thought that what we need to focus on is R&D and research would be our strategic core of our future strategies for the next several years, maybe eight to ten years definitely we will be focusing primarily on research.

What are the areas we will be focusing ? A strong technology focus, Dr. Murtaza will explain in terms of various horizons, how we are building up various new technologies, drug delivery systems, systems which goes in the biosimilars, biotechnology, drug discovery, all aspects of technology is one area we would be really focusing as a core of Wockhardt strategy. Obviously, when you focus on technology and research I think the intellectual property creation becomes very important and that is where we already have fairly large bank of patents we have filed and approved and we intend to keep this very focused, we have fairly large number of team working purely in understanding the issues of patents, keeping a track of what is the new work which is done worldwide and then obviously creating innovation. So, as a matter of fact our whole research team works in a very coordinated manner. Because it is not just the scientists either the chemistry or pharmaceutical or biotech do work, but they work in tandem with our patent team to understand what are the new things happening and what are the areas where that is possible to develop new technologies.

And obviously, competitive dynamics are important because the technology per se does not create value for organization. It is the use of technology, identifying opportunities, identifying the right kind of products in the market and understanding what the whole space of research others are doing. And therefore, there is a sense of competitive aspect one needs to stay focused on an ongoing basis. So therefore, it is a combination of all these things of developing new science and new technologies, capturing that through an intellectual property and in a very competitive way, where the value creation is an ongoing activity. And if you see over the years we have built up a number of technologies. This is mainly an example in pharmaceuticals which we have done. Like for example, we are working on new technologies in a drug delivery system, for sterile injectables which keeps drugs over 15 days, 30 days injection, those kind of new technologies which are quite challenging and some of them requires clinical trials. So I think that is where our entire focus is there to keep the science and technology edge as a part of competitive scenario.

The other aspect I want to focus is during this period we have become I would say a fighting fit. I am not a good example of that. Now many companies are like that. They are physically also fighting fit and I think as an organization we have become trimmer and fitter than we were ever before. And a few things we did. One was we refocused ourselves on what is our core business and therefore we had financial challenges and tough times. So we decided to divest the business which was not core, Animal Health we divested about three years back, then recently we divested our Nutrition business. So, we remain very focused on Pharma and Biotech areas. That is as far as the business is concerned.

In terms of geography also, we recognized that the biggest market in the world is United States. The biggest value creation is United States today. And the most competitive in the world is the United States. We felt that, if we can succeed in US, I think we could succeed anywhere else in the world. So, as a part of our core business strategy we have said that the US will remain our focus in terms of science, in terms of technology, in terms of products, in terms of access to the market in various ways. So, with that if we develop those kind of products and technology we will certainly find markets in Europe, we will certainly find markets in India and other emerging countries. India is also a big business for us. We will only go for the products in US but we will do whatever is necessary to build an India business. So that are our focus areas.

The third aspect of the core business is that if we have to succeed in US, one of the very important things is that the regulatory compliances are very important aspect of a long-term success in the US business. And that is where we have our internal checks and balances. At the same time the cultural aspect, the value system. Besides that we remain almost all time in compliance with the regulatory requirement of US and Europe. All our facilities - 12 of them are in complete compliance with these Regulations. We have in fact three of the facilities manufacturing sterile products- Two in India, one in UK. They are all approved by US FDA.

The second important aspect is we have learned to manage our costs very efficiently. Obviously, when you have tough times you try to make sure that whatever resources you have you utilize well, in fact, we reduce our operating costs very significantly; I will show you through a graph a little later on, that over a continuous period through productivity improvement, we have managed costs and focused on value creation. And obviously, you have to have a good marketing focus and plan to do that. In the process we restructured our organization to some extent. We provided a new leadership in the US market about 18 months back and that is the person who has been familiar with the organization, who was leading our

India's operations he is there, the leader we have in UK is with the company for a long period of time. So, all these put together, we have created a very efficient fighting fit organization.

So, what were the major changes which have taken place? One is we are creating a new business model and we call it New Wockhardt for the last two, three years because these changes were taking place. We wanted everyone in Wockhardt associated by an organization to know that there are changes and the change is a part of life. So the very idea that we have been doing, when you have a large organization, when you have an organization with a long history of several decades. There is always a perception, like what you can do, what you have been doing you continue to do. So, we challenged everyone in the organization that let us revisit ourselves and let us see that everything which we do must create a value. Value in terms of if you are working in research, I think it is not that how good the new things you are doing but what is the value you are creating out of the product where we are working on. So, therefore everybody has whether you work in research or manufacturing or HR or obviously, sales and marketing, the whole idea is that they think like a business and they see what is the role I can create more value for the organization in that context. So that is what we are doing today.

The second important aspect is that during these tough times one of the common things which could occur and very naturally it occurs is the people lose confidence, we went through really tough times you know that. People loose confidence in the organization, in themselves, and move away but in our case we did not lose any of the senior management team, we did not lose any significant people anywhere including our research team and sales and marketing, mainly because of two reasons - because we have segregated our issues in two compartments. One was the organization business we had which we believed is a good business we have, we have invested lot and it is a very viable business. We had financial challenges, we segregated. And we did not let those challenges affect the rest of the organization. Only a few people who are involved in that, they were only concerned. 99% of people had nothing to do with that. So they remained focused on business and that is there.

The second aspect which is happening is when you own something, if it is your own money, you utilize it very differently. When it is the organization money the ownership is less. When it is the Government money the ownership is the least. So, we brought the sense of self-ownership to all our people over this period that they own the organization, and therefore whatever they are doing they create a value for the organization. And obviously, subsequent to all these, when you do that whatever resources we have of people, or facility, or financial resources, market opportunities, we learned to use these resources very efficiently and very well.

So let me just show it to you that over a 30-month period, last 2.5 years, how we have managed to reduce our expenses to our total sales. And I must tell you last time we had growth of 23%, but previous to that we had a flat sale because there were challenges we had in Europe and France and therefore it was there. So, with more or less flat sales in one year and last year we grew and this is how our expenses happened over 2.5 years. These are on quarter-on-quarter.

So you can see that from a high of in December ’09 quarter 41%, in the latest quarter it has come down to 27%. And first 12 months we reduced for-four quarters the expenses then it stabilized to a level at 35%, then we took additional measures to revisit that and further it has now come down to 27% or so. And this is something which we believe is sustainable because these are not a one-time activity;, these are structural changes which has taken place in the organization. That is what has been reflected. And as a result of that obviously, it showed a sharp improvement in our EBITDA QoQ, both in terms of percentage to sales in absolute numbers also.

So which was at 15%, it became 35%. So quite dramatic change because 15% we got out of expenses reduction and in one year -- I will just show to you in the next chart. So if you see both the aspects this is how it went. The gap you could see between expenses and EBITDA and it is now reversed significantly which has taken place. It is gradually improving and sustainable. So obviously, you cannot protect this for next three years and that will happen but I think we have achieved most of it at this point in time and this is something we believe that it is sustainable and it is maintainable at this level.

And if you look at the absolute number of EBITDA over these last ten consecutive quarters, where it has improved QoQ, it has gone up from about 134 crores to about 500 crores last quarter, about 3.75 times it has improved from what it was QoQ.

Obviously, all this reflected in our debt-equity ratio which was high five plus times, gradually it came down and after the divestment of our nutrition business it is below 1.0.

Our sales have grown only 8% compounded mainly because it was a very stable because of France problem, but last year we grew about 23% in our sales and this is the fifth consecutive quarter growth on sales and US today represents 46% of our total business. Surprisingly, our gross margin has not changed. It has remained at 63 - 64%. And we saw some reports which talks of Metoprolol as a major item whether this is a sustainable business model?

So there are two things happening here. One is if you look at our gross margin, it is more or less unchanged over the last four years. The second thing is Metoprolol today contributes to only about 14% of our total revenue and about 18% of our gross margin. So, obviously, you have a product, always there is a competition in a marketplace and you fight the competition. So, we believe that competition coming in from one product is not going to make any significant difference in the fundamental business model which we have created.

Now, this is operating expenses, which was 40%, 32% and last quarter it again came down to 27%. During these tough times also we increased our R&D spend from 3.9% to 5.3%. And I must say that going forward our R&D spend will go up by 50-100 basis points YoY basis for next two years.

As you have seen EBITDA was 18%, now it is 31% last year. For the quarter it was a bit higher. This is net debt-equity ratio which was 5.5 in ’10, 1.9 in last year, this quarter is below 1 after our divestment.

This is my last slide. Before concluding I think we have also initiated the Wockhardt Foundation in a very significant manner over the last three years. My elder son Dr. Huzaifa who was the part of Wockhardt came back one day and saying wants to prefer doing more of this. So he is now more or less significant part of his time he spends on our foundation. Today, he is on our board also. And one of the major program which we have is the primary healthcare in a rural area and this is mobile clinic which goes to villages which are inaccessible for healthcare with the doctor, with medicine, with diagnostic tools to a village every week, same villages they go, they cover roughly 25 villages in one mobile van and they cover something like 25,000 population. The idea why it is called 1000 ?Our intention is in the next five to seven years we will have 1000 such mobile vans covering 25 million people, already we have 70 of those working. Similarly, we have other various programs and as a result of this last Saturday, there was an award of ‘Inclusive India Impact Award’ by ICICI Foundation and CNBC and I think Huzaifa and my wife Nafisa received the award at the hands of Kapil Sibal. Thank you very much for time being. But this is what is the story of Wockhardt transformation fundamentally.

What we have achieved during this time here we have got we are today is basically we have two business models, which are fundamentally on value creation, second, involving all our Wockhardt associates into the process of organization and all aspects of the organization in terms of leadership they think in terms of value for the company whether it is research. And secondly, we are very focused on R&D activity and we will be very much focused and use US as a driver for the entire business in coming years. Thank you very much. And then I request Murtaza to carry it forward.

Dr. Murtaza Khorakiwala Very good afternoon to all of you. I am Dr. Murtaza Khorakiwala, I have been the Managing Director since the last three years and as the Chairman has shared the transformation of the organization over the last four years from the time we went into the financial crisis, what I would like to share with you is some of the business and operational related things that we actually did in this period of time that has resulted in this transformation and turnaround of the company.

And what I would attempt to do in this part of the presentation is also answer some of the key questions that you would have as an investor in Wockhardt. As an organization, do we have a sustainable business model. What are the Q1 financial results and how are we as compared to our peers in the industry? And going forward will we be able to deliver consistent profits? I think all of you would be having these questions uppermost in your mind as you look at investing in our company and during the course of my presentation I will try to share some of our thought processes in these areas, and how we have been able to build a sustainable business model.

The business model that we have at Wockhardt is basically vesting on three major pillars that of Research, Globalization and Operational Excellence. And in a way you would have seen that over the last three or four years in spite of the financial issues the core business and the operations of the organization has remained strong and robust. And as a result of that we have been able to put through this difficult time. And it is this business model that we have which is pillared on the three pillars of Research, Globalization and Operational Excellence that we have created this sustainable business model.

And in a way this business model if I liken it to the biological model that we have of the human being , research is like the brain of the organization, it has idea, it has thoughts, it has intelligence and it creates an intellectual property for the organization. The operational excellence, the heart of the body, day in and day out delivers oxygen to the various parts of the body, and similarly, our manufacturing operations and supply chain, they deliver the products seamlessly in an integrated manner and efficiently to our customers.

And our markets, the sales and marketing organization through which we have access to various markets are like the arms and legs, where we are able to reach our customer and able to penetrate the market through our various business operations and organizations.

I will first share with you a little about our thought process on research. In research, we are primarily there in three areas. The first area is a generic research that we do mainly for the export, mainly for US operations and UK operations. And within research we have looked at various products that are there that we are looking at developing for the future. And there are two or three major areas and elements that we consider while looking at research in the generic space. One is we identify blockbuster products which are multimillion dollar products and which are going to get genericized. And with our sales strength in the various markets that we are there, we are fairly comfortable that getting double-digit market share, and even though there is a large amount of devaluation post-genericization, if there are large big blockbuster multimillion dollar products we have to look at those opportunities.

The second element of our research strategy is looking at niche opportunities, where we look at products which are not very big products in the market, maybe tens of hundreds of millions of dollars, but where we expect a limited amount of competition, and we do not expect 10, 15 players to come into that market. So, those are the kind of opportunities we look at.

And most importantly, as we have been focusing over the last three or four years is on technology. Complex technology products are prime focus of the research activity that we do. And the technology can be in various areas. It can be in an API technology; it can be in formulation technology or it can be in drug delivery technology. And you would have seen that in the last few years some of the products that we have introduced in the market is a testament to the kind of investment that we have made in this complex technology like Metoprolol which we have got, which is there in the US market or Fluticasone nasal spray or some of the F2F and 180-day exclusivities we have got in the product. So we have been focusing our technology as a very important element of our generic strategy over the last four, five years and now the fruit of that is there for all of us to see.

Another element of our strategy which is slightly on a longer horizon stage is a biosimilar program that we have where we are focused in two major areas. One is the insulin space and second is in monoclonal antibodies. Insulins, we have three products in the Indian market and we are present in a large number of emerging markets and monoclonal is we are primarily at the preclinical stage.

And the third which is the longest horizon of activity that we have are the Anti-Infectives. In the new chemical entities that we are developing, we are focused on infection as a therapeutic area and we are developing a number of molecules in the Anti-Infective space and one of them is in Phase I in the US and the others are in the preclinical space.

So when we look at research, we look at planning over various horizons: Horizon I, Horizon II and Horizon III. And we look at Horizon I are the products that we will introduce in the coming four years; products that are medium-term in nature is four to six years and the long-term planning we look at are more than six years. And generally, the products that are there which are less than four years are the generics, the complex technology products and the biosimilar products for the emerging markets. The medium-term horizon we are looking at biosimilar products for the developed markets like US and Europe. And more than six years horizon we are also looking at commercializing and optimizing value from our Anti-Infective portfolio that we have in the new chemical entity space.

And the complex products that we have been focusing on as far as research is concerned, we have 458 products that are sold in various markets abroad. We have 164 global patents and we have filed 1,585 patents which is basically a testament of the amount of intellectual property as an organization we are developing in protecting our business as well as creating new market opportunities.

Our research and science strength is that we have 578 people across three centers globally. And as of now, we have 33 products that are pending approval in the U.S. We have three R&D centers, as Chairman had said, all around the world. We have over the last three years won the Pharmexcil Patent Award in India, three consecutive years in a row, which is a testament to the kind of work we are doing in creating and developing an intellectual property.

To give you an example that of the product activity and the product launches that we have had as a result of the research work that we are doing, in the US in the last year we had six product launches and in the current year till date, April to now we have had four product launches. In UK in the last year we had seven product launches and in the current year till date we have three product launches. And in Ireland we have had 13 product launches in last year, four launches in the current year. And in India we have had 24 launches last year which includes brand extensions also and six launches in the current year. And you will see within this product basket there will be various examples of products that we will see are blockbuster products, are niche products and high technology products.

To give you an idea of the product approval performance in the current year since April 2012, for US we have had six products where we have got an approval and for UK we have had two products. Out of this Entacapone is a 180-day exclusivity product and is a F2F product.

And as we saw in the earlier part of the presentation in spite of the financial turbulence we had in the organization, our research spending in 2008 it was 140 crores, 2009 it increased to 153 crores; 2010-11, 157 crores and last year we had increased it significantly to 248 crores. And over period of time our research cost has increased from 3.9% to 5.3% and this focus and emphasis on investment in research will continue and we expect the cost to increase by 50 to 100 basis points for the next year.

The other part of our business model is globalization. And with globalization we have access to the various markets we are able to reach our customers, we are able to deliver the products to the patients, which require these products and there are two kind of operations that we have. One, the direct operations where we ourselves as an organization have direct sales and marketing organization as we are present which is in the US, UK, Ireland, France, Switzerland, Mexico and India, and the other kind of operation is where we are present for distributors, our partners and various marketing alliances that we have which is in the rest of the world markets.

If we see the contribution of the various geographies and how they contribute to the revenue split of the organization and we look at last year 2010-11 versus financial year 2011-12, I think a very important element of it is that the US which contributed 28% of our revenue in 2011 has now contributed 41% of our revenue. So, we see that a very significant part of business profile is changing and is becoming more dependent and is becoming more focused on US which is the largest global pharmaceutical market.

To share with you a little bit about each of these markets, our US business has grown from $144 million in 2010 to $375 million and in the last year it has grown from $211 million to $375 million having a growth of 78%. We launched six products in the last year and we received six approvals in the current year.

And we have consistently improved the market share in various products that we have. As you see the number of product launches are not very high, but our business has grown very significantly. So of the products that we have, we have continuously been able to increase our market share and with better penetration attraction in the market. We are focusing on the injectable business where we have injectable capabilities developed in the manufacturing organization and looking at how we can leverage that for the US market. And we have launched the F2F Stalevo that is LEC where we had 180-day exclusivity on the product.

The second major market is EU operation. And our EU operation is led by strong presence in UK. In the last year we had a growth of 13% compared to our market where the pharmaceutical market in UK is stagnant. So against that we had a 13% growth which is very creditable. And in UK in the generic space we are ranked No. 3. So, we have a leadership position. We are among the top three in terms of sales revenue in UK in the generic business and the hospital business, we are No. 2. So, we have a very strong position in the UK market. We launched seven products in financial year '12 and three in the current year.

The other EU operations that we have are Ireland and France and that does not look as promising as the UK operation and I will share with you some of the perspectives on that. Ireland, as you know, as the country has been going through an economic crisis and they had a very high level of debt and they had a bail out by EU. And as a result of that there is a severe control of various expenses in all aspects of the government including healthcare. And over the last 12 months to 18 months there have been a number of price cuts that we have seen in the Irish market both in the branded products as well as in the generic space.

Of the total Pinewood business of around €65 million that we have, 40% to 45% of that business is in the Irish market and the rest of it is an export business which is not affected by the Irish economy. So, the Irish business that we have is around Euros 28 million it was last year and this year it is Euros 27 million. However, in spite of the decline in the market, we continue to maintain our position in the market as the No. 1 branded generic company having a 30% market share and we have launched 13 products last year and four in the current year.

France was another challenging situation that we faced in the last three years where at a peak level we had a turnover of €105 million and 70% of our turnover was from a product which was protected by the patent and we lost that in litigation in the court and as a result of that there was a massive fall in the revenue of the business and from €105 million we are looking at last year of Euros 34 million and most of that has been factored in over the last two years. And in spite of this challenging situation we did two things with France, one is we restructured the entire financial and the debt part of the business that was there with bankers; and the second part is we fundamentally restructured the organization that we have. At a peak level we had 497 people and now we have 63 people, so we have significantly reduced our operating cost by around 70% and in spite of the significant downfall in the revenue we are able to restructure the business and now have by and large stabilized as far as the restructure is concerned.

Our India business is growing as per the market growth. Last year, we grew at 16% against the market growth of 15%. We have seven brands which are in the top 300 and we have a strong presence in the Indian field with 3,000 sales reps and over the last two years we have expanded that; we had around 1500 2.5 years back and the last two years we have expanded that to 3,000.

As far as the pain market is concerned we are very strong in the pain market and we have a 3rd position in the market. And our emerging market business has grown by 36% in the last year.

The third element of our business model is operational excellence. And I think what it means is that one is what we do operationally, we do it well and second is, we do it efficiently. So, we do it effectively and we do it efficiently and some of the figures that we saw earlier gross margins while they remain the same at 63% to 64%, operating expense as a result of efficiencies has reduced from 40% to 32% and our EBITDA margin has increased from 18% to 31%. And this has been possible because at every part of the organization we looked at our cost structures; we looked at our resources that we had and we saw how we can optimize it better, how we can use it more efficiently.

So, in the last four years, if in 2008 we were making 100 units in terms of production volumes, last year we were making 164 units. So, there was a 64% increase in the production volume of the organization whereas the manufacturing cost per unit, if it was 100 in 2008 it is 71 in 2011 and 2012. So, per unit cost of manufacturing over the last four years has reduced by 29%.

Similarly, if we look at people productivity, the sales cost or the employee cost as a percentage of revenue which was 17.6% in 2008 is today 12.8%. And people productivity has improved by 27% over the last four years and in fact in absolute numbers against 2008 where it was at 632 crores in 2011 and 2012 it is at 589 crores.

Similarly, in working capital which was at 32% of our sale in 2008 today it is at 24% and we have stabilized over the last three years at 24%, 25% and have reduced the working capital by 26%.

And I think all this has been possible because of firstly, our Chairman who in spite of the difficult time was the one who inspired us and who led from the front and was determined and confident that we will be able to go through and has guided us at every step and obviously the strong management team that we have been able to build also in the last two or three years where we have filled leadership positions in various areas, we have restructured our finance team, we have got a leadership position in our IT, HR. Our business operations in UK have remained stable. And Sunil who was handling our India business has moved to US which has done extremely well. We have got a new leadership in the India business, Bhaskar and Dr. Ajaz has joined us as Chief Scientific Officer and President of Biotechnology. And Horizon II and Horizon III research led by Dr. Sahib, Biotechnology and Dr. Mahesh Patel has remained stable over the years. And Sanjeev Mehta who heads Supply Chain has ensured good products availability, reduction in working capital and making sure the products are delivered on time.

Coming to my second part of the presentation is the Q1 financial results of the company. We had a growth of 35% compared to the same time last year against Rs.1053 crores we had Rs.1426 crores and consistently over the last five quarters we have been showing consecutive sequential growth. Our EBITDA has grown by 61% against Rs 312 crores, we had Rs. 502 crores and our EBITDA margin has increased from 29.5% to 35.2%. PAT has grown by 97% over the same quarter last year and PAT margin has increased from 18.4% to 26.9%.

To give you a little bit of a perspective in a sense of where we are versus our peers in the Indian industry, we thought we will do a little bit of benchmarking and see where we are as of today. In terms of sales, we are at No. 6 among the Top Seven Indian Pharma Companies with a sale of Rs. 1426 crores against Sun Pharma, which has had a sale of Rs. 2683 crores. While in sales we are No. 6, in EBITDA we are No. 3, having EBITDA of Rs. 502 crores. In EBITDA margin we are No. 2 at an EBITDA margin of 35.2%. In terms of PAT we are again No. 3. We are in the Top Three with a PAT of Rs. 378 crores and in terms of PAT margin we are No. 2. In terms of valuation we are the lowest. So, I think that is why we are here and you are here.

Just giving you a summary of our peer positioning. In sales we are No. 6 and EBITDA No. 3, EBITDA margin No. 2, profit after tax No. 3 and PAT margin No. 2.

There was an article in "Mint" which looked at the performance of the BSE Healthcare Index, since the beginning of the year and compared to the index which moved from 100 to 125, the Wockhardt share price has moved from 100 to 468.

The other element of the question that you would have is will you be able to deliver a consistent and profitable growth going forward. And yes, I believe that this is definitely doable. It is because of the critical elements of our strategy which are in place and fundamentally those elements of our strategy will deliver that growth and that profit going forward.

Let me explain. Research which is at the core of our strategy and where we do a long-term planning, we have Horizon I, Horizon II, Horizon III planning, and in generics we are focusing on complex technology products. These ensure that we look at opportunities which are value creating opportunities which is based on intellectual property and where we are not just chasing a number of products file and number of products approved, but the quality of one that we are doing. We are focusing on the quality of activities and quality of filings that we have.

The various products that we developed we reach it out to the major markets where we are present in US, UK and India. USA, we are now over the last two years established a good position in the market. UK we are No. 3 in generic, No. 2 in the hospital segment and in India, we are growing as fast as the industry and we are doing well. And in various emerging markets we are entering into various kind of alliances and we take advantage of the opportunities in those markets.

And another important element is why we will continue to deliver profits going forward is that there is a very conscious organizational mindset of efficient use of resources and efficiently using the various resources that we have, and therefore, we will continue to focus on remaining fit and a trim organization which is very important to maintain a profitable growth and maintain good EBITDA margins. But more than that, I think we believe that it is the management and the leadership capabilities that we have in the organization right at the top level as well as various middle level which are the real backbone of the company and we will ensure that the business operation that has happened in the past will continue to remain robust and excel and we will focus on high value products as we go along.

Therefore to summarize the part of the presentation, yes, we have developed a sustainable business model and that has been proven by the fact that we have been able to withstand the business operations because of its robust model that we have in spite of the financial difficulties. We have a very focused strategy, US, UK and India and this is where our focus primarily as far as the market is concerned. We are focusing on our core business. So, focus is an important part of our strategy. Whether it is a market focus, whether it is focus in research and high technology products, whether it is core business as you would have seen that over the last two, three years we have divested some of the businesses like Animal Health business, Nutrition business and even the German subsidiary that we had and therefore we are now really focused on the things that really we believe will create the maximum value and that is how we are further sharpening our activities.

Everything that we do has to be profitable at the end of the day. And we are very highly conscious that profitability as you would have seen even in terms of the peer positioning as far as profitability we are No. 2 and No. 3 in the Indian industry and therefore everything that we do must be profitable and that creates a profitable business model.

Our focus on research and development ensures that we have done sufficient amount of planning to ensure future business and future revenues to reduce process of product identification, selection, research and development and finally, commercialization.

We have developed strong manufacturing capabilities in US, in UK and in India we have 12 manufacturing facilities and we are there in almost most of the time the dosage forms from oral to liquid to injectables. We have strong operations and we have further improved our productivity and efficiency over the years.

I think another very important element as I shared with you is the leadership team that we have been able to put in place over the last three years, where we have a very good blend of some of the senior management that have been with the company for a long period of time and have been with the company and stood by the company and the new management that we have got at a very senior level that has been able to redoing that function and that operation and we have a very good competent leadership at the helm to take the business forward.

And as Chairman was mentioning in earlier part, I think in a way we have realized ourselves that the self-ownership of the organization is a very important element in creating a sustainable business model, because at the end of the day we are only as good as the people and our associates who are with the company and by creating that sense of ownership and that sense of belonging and commitment to the organization we ensure that we are creating a sustainable business model.

I would like to end with a quote by Mahatma Gandhi who said, “A man is but the product of his thoughts. What he thinks he becomes.” Thank you.

K Suri K Suri from Span Capital Securities. Your annual report mentions that you have a portfolio of 10 Para-IVs first-to-files but you described the brand value for the same and what kind of therapeutic segment that you adhere to?

Dr. Habil Khorakiwala I do not have that exact information with me.

Mohnish Vijan This is Mohnish Vijan from Vijan Shares & Securities. Since you are focusing more on your US business, what would you identify as key risks to your US business?

Dr. Habil Khorakiwala That's a good question. What we try to do over the three years to de-risk the organization actually. So the only risk in the US operation is the competition and therefore to protect that, we identified products, portfolio, build up capital, create a technology base with the entire facilities in few places and continue to invest in R&D over the years. So that is how through that strategy we are actually de-risking our US operation.

Manish Jain This is Manish Jain from Axis Holdings. You have been investing close to Rs. 172 crores out of 248 crores last year in R&D in capital expenditure. Could you give in signs what are the kind of R&D capabilities you are creating through this capital expenditure?

Dr. Habil Khorakiwala I would like to clarify that we have been capitalizing part of the revenue expenditure and therefore it looks like that. But actually speaking, our total R&D spent was Rs. 247 crores last year. Out of that Rs. 20 crores was in the fixed assets and Rs. 227 crores was the revenue. And through various means - writing-off expenses, through depreciation and other charges, we actually have written-off during the year Rs. 172 crores of the revenue. In a way, it was only Rs.45 crores which we capitalized.

Manish Jain Actually, I was keen to learn on the capabilities that you are trying to create?

Dr. Habil Khorakiwala R&D capability is not coming out of my CAPEX expenses. It is coming out of the people we have and so we have got two fundamental things I will share with you. We have created a research center also in US and UK and we were able to have people who have special knowledge of certain technology we want to develop and buildup that was one. Second, over the years, we have continuously moved up and not remained stagnant because science is a moving target actually. Technology is a moving target. Today, you say this is the addressing technology and it is very few people know and in two to three years' time see this to remain there. So, those kind of capabilities we have created here in India also.

Nitesh Shah My name is Nitesh Shah from SMC Global. Actually, looking at your portfolio, I have seen that your major concentration on developed markets but generally the pharmaceuticals sector after FY14 people are looking more into emerging markets. So what is your view? Your effort is in the emerging markets or you are concentrating on the developed markets only?

Dr. Habil Khorakiwala You are right that emerging market as a whole if you look at the total market is going to grow much faster and contribute far more significantly to total pharma market over the next 10 years or so. So, I fully agree with you on that count. But as a company what we have decided to do is that if we can develop our competencies to compete in the most complicated and tough markets and move up the value chain there we will have the product, it will be a global products, not all of them. If we introduce 100 products there we will not have all 100 globally worthwhile but various markets we will pick up the product which is appropriate, and therefore, we will be able to create basket of products over five years or seven years through pharmaceuticals, through the biotech and take some of the NCEs we might have seven to eight years where we will be able to establish relationship and alliance because we do not believe that for us, I am not talking of other companies, worthwhile at this point in time to go and start building our business everywhere. So, we said we will build up our business through our products and finds leaders in the various geographical markets where we are not present, where we are present we will do ourselves, where we find those partners and work through them. So that is our strategy. And if you see last year our rest of the world even though it contribute 6% of our sales, grew by about 36%, so there has been a significant growth even in the rest of the world market also. And we believe that the growth will continue. So, we hope that at 6% or emerging markets which was last year 31% we want to be maintaining at that level.

Nitesh Shah In Europe, you had some geographical issues, right in France or in Ireland. So what type of growth one should expect from those geographical areas?

Dr. Habil Khorakiwala We believe that our largest business is in UK we are healthy, we continue to grow well. In Ireland, our business is good. It was the environment which was challenging. We continue to have a significant 30% market share and I cannot say that country will have a better atmosphere and economic environment in the next one or two years, it will remain challenging and we still hope that we will have 10-12% growth.

Dr. Murtaza Khorakiwala Just to give a perspective on Ireland and France, together they contribute less than 2.5% of our gross margin. So whatever the associated issues are there in the market, as an organization we have a very low dependence on that.

Manoj Garg My name is Manoj Garg from Edelweiss. Coming to your US business, you said that sterile injectables is going to be your focus areas. So out of the $375 million which you have in the US market, what percentage currently is coming from sterile injectable business?

Dr. Habil Khorakiwala Our significant business is in solid dosage but we are also in injectables. I do not have those numbers at the moment and I am sure US IMS data will have those numbers available.

Manoj Garg Out of this 33 pending ANDAs how many products are in the sterile injectable areas?

Dr. Habil Khorakiwala I don't think I will be able to answer this question.

Manoj Garg With regard to your R&D practice like so far you have been capitalising, are you going to change this policy from this year onwards or is it going to remain the same?

Dr. Habil Khorakiwala Our current policy is one of the accepted policy which we have. We acknowledge and take note of your suggestions on this. We will advise if there is a change in the policy.

Manoj Garg Last question from my side, about LEC, since you are being in authorize generic is the profitability going to be the same the kind of probably we enjoy with Toprol XL generic?

Dr. Habil Khorakiwala Yes, obviously when you have an authorized generic the margins are really high.

Manoj Garg Do we suppose to share the margins with innovator or so?

Dr. Habil Khorakiwala No, this is authorized generic we have got because we were first-to-file so it is not an authorized generic coming out of advanced arrangements. It is because we challenged the patent of innovators and we arrived at a mutual understanding of preopening of the launch of the product so that is what is the really is the authorized generic has come in. So it is not that we are sharing the large part of our revenue which is buy the product at a predetermined price and then we do our margin.

Anubhav Aggarwal I am Anubhav Aggarwal from Credit Suisse. Can you just describe on your OTC business in more details in the sense out of the $375 million sales today in the US, approximately how much comes from there and how much products we have in the market?

Dr. Habil Khorakiwala We do not have that information at the moment.

Anubhav Aggarwal You have launched couple of products this year.

Dr. Habil Khorakiwala Yes, we have.

Anubhav Aggarwal Can you qualitatively talk about it in the sense?

Dr. Habil Khorakiwala I do not think it will be more than 10-15% of our US business qualitatively speaking it will be in that range and we will have about four to five products.

Anubhav Aggarwal Currently in the market?

Dr. Habil Khorakiwala Yes, currently in the market.

Anubhav Aggarwal And in terms of pipeline that you have 33 products pending, can we assume that at least you have another two, three products here or most of the products that you have already launched in the OTC business?

Dr. Habil Khorakiwala Obviously we don't have the answer to this.

Anubhav Aggarwal Second question is on nasal spray. You already launched the Flonase #1. Do you have any more nasal sprays already?

Dr. Habil Khorakiwala No, we have not filed any more.

Ishan My name is Ishan form Unify Capital, Chennai. My question is on the India business. What is the roadmap for India business? Do you intend to enter into new segments or your efforts to focus on the regulated markets and NCE research, do you intend to divest your India business at a later point in time?

Dr. Habil Khorakiwala We have no intention to divest any more of our existing India business.

Dr. Murtaza Khorakiwala As far as our India business, what we have done over the last two years, we have strengthened our presence in the Indian market, we have added 1500 people on the team. We are present in a more acute as well as a chronic segment. And while the acute segment will continue to grow because it is the large part of the market, the chronic segment also will show a high growth especially in certain areas like diabetes and cardiovascular. And therefore, as an organization, we have a number of our businesses that we have, we have the main pharma business, we have the business unit that goes to neurologists. We have diabetes, we have cardiac, so we have tried to cover a large part of the market and the focus and commitment in the Indian market is always going to be there. It is growing at 15-16%, not many markets in the world are growing at that pace pharmaceutical market. It is a branded market. We have a new leadership in place who has joined from AstraZeneca Mr. Bhasker Iyer**.** So I think in the quarters to come by we will look to pick up the pace of growth in the Indian market.

Ravi Agrawal Hi this is Ravi Agrawal from Standard Chartered. Just two questions; one is on your biosimilars. We do understand that they are very capital-intensive programs and how are we looking at funding of this**.**

Habil Khorakiwala Yes the clinical trials required for insulin primarily which we are focusing on an analogue is expensive. But the very fact that we have a technology and our only incremental cost, the clinical trails everything else is in place, manufacturing everything is in place. So we believe that this is worth spending over the next three to four years so that is where we will be spending. It will take about three years plus before we will be able to take the product in the market. And we are funding through our internal cash flow. If you see our numbers we have adequate cash generation and we can fund adequately. And at the same time we see a great opportunities coming our way because by the time we would have really robust US business anyway and these are large opportunities available. The level of competition would be very limited because insulin especially analogues have very few manufacturers other than innovators in the world so we don't expect too many players to be there. We don't expect many price discounting taking place. So if you look at it in a overall context we would rather invest in some of this large opportunity which will be there it is not today may be next three to four years. So that's what we intend to do that and we will be able to fund it through our internal cash flows.

Ravi Agrawal So have you started the global trials for these biosimilars?

Dr. Habil Khorakiwala Yes.

Ravi Agrawal Can you give some sense including our MABs what is the kind of funding or the extent of the amount of funding which you are looking at for biosimilar in the next two to three years?

Dr. Habil Khorakiwala I do not think I will be able to share that with you. But I could generally mention that it would be part of our R&D program and we will be with our research spend over the next several years and on YoY basis it will go up by 50-100 basis points.

Ravi Agrawal The second question again my follow up question on Metoprolol. The number you are mentioning 14%, 18% just doing some rough calculations roughly contributes to my calculations to almost 450 crores of gross profits if that is the correct number and EBITDA that is the significant number to our overall EBITDA level.

Dr. Habil Khorakiwala Let me tell you I was talking in terms of gross margin. So if you have to look at the organization, you may have to look at the gross margin in a dynamics. You cannot take away one single product out of context and straightaway look at gross margins as EBITDA. Second, I demonstrated to you that if you look at our total product mix as a gross margin it has not changed significantly over the years. It has remained constantly at 63, 64%. It is not as high as 85 or 90% or as low as 40%. So these are in the range. And my numbers are reflection of the total sales and total gross margins, not EBITDA. EBITDA you cannot calculate out of context and say my gross margin is EBITDA per product. We have the whole product portfolio to manage.

Ravi Agrawal I think the concern was whether that has a significant contributor to EBITDA?

Dr. Habil Khorakiwala There are other opportunities also coming and you have a business it is not going to disappear just because the competition is there and if you accept competition as a part of a normal life, which we believe is a part of our normal life, there will be competition and there would be product portfolio minor changes that will take place. The person who are in earlier there they are not going to disappear. Mylan came in as a competitor in December who introduced the product. It has not significantly affected our overall performance. So the competition will come. We know how to deal with the competition both in the marketplace as well as in terms of managing the overall product portfolio. So to say that one single product may contribute everything, it is not the right way to look at.

Participant If you can help us with what would be your CAPEX plans and the debt repayments?

Dr. Habil Khorakiwala We expect this year the CAPEX to be about Rs. 200-250 crores yearly and debt issue is we have adequate cash so whenever we have cash we have obviously retire our debt. There is no sense to sit on too much of cash.

Participant The tax rate has been a little lower right now. How long the tax rate will continue to be this?

Dr. Habil Khorakiwala We expect our tax rate because of the way we are structured to be at around between 15 and 18%.

Participant We have around 10 FTF in filings. Recently a lot of these blockbusters, FTF exclusivity we are seeing more than 95% erosion. Do you see this to be the new-normal going ahead and any worries because of this?

Dr. Habil Khorakiwala If there are products where there are large number of competitions the discounting will take place to what you have mentioned or even more so that will take place therefore the whole issue is not the size of the market but what is the level of competition we have. Obviously, in many of the areas where our products which is there they are more of large number of market values where we have built in or technology driven they are relatively few.

Anand Bagaria: Anand here from Finquest Securities. Just wanted your view on Wosulin filing in US and when do we expect that to come in further stages?

Dr. Habil Khorakiwala We are undergoing the clinical trial now. And I do not like to give you a timeline because this is our first product and we are going through an experience. As I have explained earlier within three to four years we will have our product.

Sonal Gupta My name is Sonal Gupta from UBS. This again questions on the US market. Your annual report says you are looking to launch some 15 products in the US and your current filing is only for about 33 products and 13 were filed last year. So is that not too high a number? My second question is how many products you are looking to launch in this fiscal year in the US?

Dr. Habil Khorakiwala We have received six approvals so far and we expect to launch 10-12 products.

Sonal Gupta But the question I am asking is that you have about I think 33 pending ANDAs as you mentioned…?

Dr. Habil Khorakiwala No, four-five approvals we have received last week, right. So that 33 excludes those approvals which we have received in last week or ten days.

Sonal Gupta And this in terms of I understand, there is a huge difference between the numbers and the quality of filings, but what is your expectation in terms of, you got a couple of these limited competition of opportunities in Metoprolol and Fluticasone, but going forward how do you see that panning out, do you see having enough pipeline to replace that more competition increases in these products?

Dr. Habil Khorakiwala I did mention throughout our presentation we have products what we have filed or will be filing and we will maintain this kind of a robust portfolio. And the competition is the part of the system. We believe the competition is part of life for our business. So, we deal with the competition and we believe that it is a sustainable business model.

Participant And how many filings do we plan to make in this year in the US?

Dr. Habil Khorakiwala We generally file about 15 to 18 products in a year.

Nitin This is Nitin from Accurate Advisors. We saw during the last four years you had a sales growth of about 8% which has been accelerating now last year it is 23%. The gross margins have been pretty stable as you showed between 63, 64%. But your operating margins have actually gone up. Considering that you are also investing in the business now to accelerate sales. Where do you see your numbers to be on the operating margins?

Dr. Habil Khorakiwala I think we should be able to maintain at about 30 plus percentage. Some variation would be there. But by and large 30% to 35% is the range.

Nitin What number of sales growth you will be looking at if one looks at portfolio?

Dr. Habil Khorakiwala We do not give guidance but we expect with the kind of sales what had last year around that 2 percentage plus or minus something like that.

Arvind Bothra This is Arvind Bothra come from Bank of America-Merrill Lynch. You highlighted US and India to be one of the two important markets of focus. Given that our financial strength has improved significantly. Are we looking at any niche acquisitions to broaden the product basket?

Dr. Habil Khorakiwala No, not at this moment.

Arvind Bothra Second question was relating to your CAPEX plans. How do you see that panning out over the next two years, how is the current capacity being utilized, if you can throw some light?

Dr. Habil Khorakiwala I think basically our approach of product availability is that one of our organizational strength is our supply chain and product availability and that is one reason where we have been consistently able to deliver products to our customers on time all the time. That is where we are making sure that we have generally manufacturing capacity and we have planned a couple of years ahead of the projected manufacturing capacity so that we will always have capacity available and if suddenly the demand picks up or whatever market dynamics for other companies are there we should be able to fill those gaps. So we plan and therefore this year we are planning about Rs. 200 - 250 crores is we are aiming an adequate facility.

Arvind Bothra: Finally, on your supply chain front, you are talking about, can you give us a fair idea of what proportion of your total formulating sales is through internal API just to understand the backward integration?

Dr. Habil Khorakiwala I don't have that information. We can provide you later.

Saion Mukherjee This is Saion Mukherjee from Nomura. A couple of questions, the French business, how is that now, I mean when you acquired it was largely a branded business, you have faced competition in one of the large products there. So how should we think about the business now, is it still very brand focused or are there more products in your portfolio which will see competition in the next three to four years?

Dr. Habil Khorakiwala If I have to tell you for French business is about €30 million of our sales. We are working on products where we are hopeful to get an approval early next year. But, irrespective of that we don't expect much out of French business. It is breakeven by cash today and we would like to everyone to assume that it would be same and that is what we are exactly doing. There is nothing downside to come out of that because whatever has happened has already happened.

Saion Mukherjee Can you share in Q1 what was the France and European sales number?

Dr. Murtaza Khorakiwala 21% is the growth in the European and France actually declines. Annually France we do not expect to be more than cash breakeven. We will be at that level.

Saion Mukherjee One last question on the US operations. Of course Metoprolol and Fluticasone are being the growth drivers. How about the rest of the business for us? Have you seen besides market share gain, how is the pricing, some of the other products in the US?

Dr. Habil Khorakiwala I must say that there is a general belief that the older products declined because of competitive pressure. But we have taken this as a challenge in a sense. What we are doing actually is growing this old existing business. So, what growth I see because Metoprolol was there last year in the same quarter and still we grew 78%. So it is not that we have got growth out of Metoprolol. It is the growth we have got out of other products out of the Metoprolol in the last quarter. So I think that is going to remain with us. So, we will see growth coming out of the existing products also and we will get growth quarter-after-quarter on that also.

Saion Mukherjee Last question on the nutrition business that you have sold, what would be the sales on that business?

Dr. Murtaza Khorakiwala Last year the sales was around Rs. 250 crores actually and EBITDA was Rs. 50 crores.

Dhaval Shah Dhaval Shah from Morgan Stanley. Wanted to understand in terms of CDR package, what would be the equity dilution from preference shares as and when they will get converted?

Dr. Habil Khorakiwala I will explain you through the concept. The optionally convertible is our price prevailing in 2015 onwards and total value of optionally convertible preference shares is around Rs. 223 crores. That is the total value of preference share. Price is prevailing in 2015. So from a practical point of view for our size of the company the dilution in practice is little.

Participant This question is more as an investor. Can we expect a dividend from you next year?

Dr. Habil Khorakiwala I think I have to ask my Board. Thank you very much for being with us.

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