



Wockhardt Limited

Q2 FY2013 Results Conference Call Transcript

November 15, 2012

Moderator Ladies and gentlemen good day and welcome to Wockhardt Limited's earnings webcast and conference call. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode. To view the presentation participants are requested to be logged into the webcast. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference to Mr. Giri Giridhar. Thank you and over to you sir.

Giri Giridhar Good morning everyone and thank you for joining us on Wockhardt's Q2FY13 conference call. We have with us our Chairman – Dr. Habil Khorakiwala and our Managing Director – Dr. Murtaza Khorakiwala. We also have Tushar Mistry with us from Investor Relations. We will begin the call with brief presentation by Dr. Murtaza Khorakiwala following which we will open up the forum to answer any questions you have.

Dr. Habil Khorakiwala Hi. A very good morning to you. I am the Chairman, Habil Khorakiwala, and let me at the very outset wish all of you a very Happy Diwali and a Wonderful New Year and a very warm welcome to our first earnings call after a long time. In August, in fact, some of you may be present in our investor conference. Before I hand over to Dr. Murtaza Khorakiwala who is our Managing Director, let me just say that our second quarter and first half year results were really an outstanding results and it, in short, demonstrates the Wockhardt's strength of its business model and the quality of its management and research. What we will have is about a 30 minutes presentation by Dr. Murtaza Khorakiwala followed by a question and answer session where all of us will be responding appropriately. Over to Dr. Murtaza Khorakiwala.

Dr. Murtaza Khorakiwala

A very good morning to all of you and I echo the Chairman's good wishes of very Happy and Joyous Diwali Celebrations and wish you and your families a very Happy New Year. As is the agenda I will be making the presentation on the earnings call and the investor presentation and this is going to be consisting of three sections. One is, I will briefly introduce where Wockhardt is today; secondly I will be talking a little bit about our sustainable business model that we have developed over the last few years which has ensured that we are delivering consistent sustainable profits going forward and third is we will go through the Q2 Financial result and provide sense of peer comparison between us and the various players in the industry. So going on to Slide #4, Wockhardt today has 7,900 associates employed in 21 countries and we have direct operations in India, USA, in Europe and UK, Ireland, France and Switzerland and in the other countries - emerging markets like Brazil, Russia, Eastern Europe and African Countries we are there through indirect operations and partners and various distributors that we have in those markets. In terms of manufacturing we have 12 manufacturing locations globally, 9 of which are

in India, and three are international - one in UK, one in Ireland and one in Chicago. We have three research centers around the world - India which has been a global hub and continues to be a global hub over the years. We have also added two new research centers in the last year. One is in US and one is in UK and they are more focused towards developing high technology products. Sharing a little bit about our sustainable business model, I think over the years we have been able to build up business model that is sustainable and we have built it up on the three important pillars of research, operational excellence and globalization. Research which is really the brain of the organization develops the ideas in the intellectual property. Operational excellence which is the day to day operation of the Company which is the heart of the organization delivers the product and via globalization we are able to reach our markets and our customers through the various direct and indirect operations that we have.

Going on to Slide #9, talking a little bit about research capabilities - we are generally focused in three major areas in research. One is generics, second is biosimilars and third is new chemical entity. In generics our strategy is focused around three major areas, one is looking at the blockbuster products that are going off patent and developing those generic products and second is niche products where the market size is not very high but because it is niche and limited level of competition we look at developing those products and third is advanced technology and complex technology products where we can differentiate ourselves from the competition. In biosimilars we are focused in insulin space and in new chemical entities our focus is on anti infective space. We do a long term planning of our research program in the organization over three major horizons; horizon 1, 2 and 3. Horizon 1 is less than four years where we develop the generic products, complex technology products and the biosimilars for emerging markets. Horizon 2 spans over from 4-6 years and these are the biosimilar products that we are developing for the developed markets like US and Europe and horizon 3 is greater than 6 years where we are developing the anti infective portfolio for the developed markets. Our research which is focused on our advanced technology as I had mentioned we have three research centers worldwide and we are currently selling 491 products in US and Europe. We have 169 patents that have been granted globally of a total of 1,667 patents we have filed. We have 578 research scientists working on various technology products and we have 30 US ANDAs which are pending approval and this is the fourth year in a row where we have won the Pharmexcil Patent Award in India.

Slide #12, if we see the recent product launches that we have accomplished, in the last full financial year we had 50 product launches, 6 in US, 7 in UK and the others in Ireland and India and in the first half of this year we have had 51 product launches, 8 in US, 6 in UK and the remaining in Ireland and India. In terms of the product approvals till date in H1 2012-13 in US we have had 8 approvals and in UK we have had 6 approvals.

Coming to Slide #14 which reemphasizes the discussion that we have been having on our increased focus on research and development - as you would see the research spending which was around 3.9% of our sales in 2008, today is 5.7% as of September 2012, trailing 12 months of our sales and this is expected to increase as we go up by 50-100 basis points on an annualized basis.

Coming to Slide #16 which talks of our global reach that we have as an organization which I have mentioned earlier, we have direct operation in US, Mexico, Europe and India and through the partners we are reaching some of the other emerging markets.

Slide #17 if you see how the revenue mix within the organization is changing we will see that US which contributed 31% of our revenues in financial year 2011 in the H1

2012-13 is contributing 48%. So 31% US contribution has gone up to 48% and that is the significant change that has taken place in the last two years.

Coming to our third pillar of our sustainable business model, that is operational excellence, Slide #19, because of our focus on very effective and efficient operations what we have been able to do is reduce our operational cost and thereby improve our profitability and if you see our gross margins, in 2008 our gross margins were 63% which was 64% in the end of financial year 2012-13 and for H1 it is at 67%. Our operating cost which was at 40% in 2008, in H1 it is at 31% and our EBITDA margin which was 18% in 2010 is in H1 at 36%. Now how have we been able to achieve operational excellence and operational efficiency and effectiveness - there are couple of areas that I would like to highlight. One is if you look at our manufacturing organization we have been able to improve our manufacturing cost per unit. So if you look at 2008 which is the base year where, if we consider that we made 100 units of production at a cost of 100 per unit, in comparable terms for the financial year 2012 our volume is 164. That is our volume has gone up by 64% and our cost per unit has gone down from 100 to 71 so that is a 29% reduction in cost per unit over the last 4 years. Similarly, if you look at people productivity in 2008 our people cost as a percentage of sales was 17.6% which in September 2012, trailing 12 months is 12.8%. So we have been able to improve our productivity of people by almost 5% over the last 4 years. Similarly on working capital if you see versus 2008 which was at 32% working capital, over the last two years we are at 24-25% working capital. So we have significantly improved our working capital by about 26% and have been able to maintain a steady state at 24-25% working capital.

Now, I will come to the third section of the presentation which is the Q2 financial results, Slide #24. I will take a few minutes on this slide because there are certain key events that have taken place during this quarter which I will elaborate. First is we have realized a profit of Rs. 1,187 crores from the sale of the nutrition business which has been accounted under exceptional items. Second, R&D developmental cost which was being capitalized till now has been expensed out under exceptional items to the amount of Rs. 437 crores as of 30th June 2012. Additionally for the current quarter Rs. 48 crores of R&D expense has been expensed out for the quarter ending September 30, 2012 under respective expense heads. Thirdly, we have accounted for goodwill impairment of our French subsidiary of Rs. 621 crores, which has been accounted under exceptional item. The remaining slides which share the Q2 results have been normalized for the comparative periods earlier, taking into account the sale of the nutrition business and the research and developmental cost which are being expensed out in the P&L statement of the current quarter in order to provide a like-to-like comparison on operational performance. And the Balance Sheet as of September 30th 2012 is as reported and considers the reduction of nutrition business and R&D assets and goodwill of the French subsidiary.

Coming to the Q2 results on slide 25 we ended the quarter at a turnover of Rs. 1,347 crores which is a growth of 29% over the previous year same quarter and for H1 it is a growth of 32% over the H1FY12. Our EBITDA has grown by 85% over the same quarter last year from Rs. 280 crores to Rs. 517 crores and our EBITDA margins has grown from 26.8% last year to 38.4% this year and for H1 our EBITDA growth is 77% and we have shown consistent quarter-on-quarter improvement in our EBITDA. Our adjusted PAT has grown by 375 % over the same quarter last year from 94 crores to 447 crores having a PAT margin at 33.1% versus last year which was at 9% and showing a growth of 375% over the quarter and 217% in H1FY13 over H1FY12.

Coming to slide 28, this shows us our quarter on quarter improvement in EBITDA and how we have been able to control our operating cost. So if you see June 2010 our EBITDA was 16.8% on a normalized basis and this quarter we have ended at

38.4% EBITDA. So our EBITDA margin has improved by 22% and our operating cost which was at 39.4% two years back is now at 31.7% and therefore we have reduced our operating cost by almost 8% which has contributed to the improvement in the EBITDA. Coming to our Balance Sheet which is on Slide #29, our shareholders fund compared to March 12 has improved from Rs. 1,471 crores to Rs. 2,294 crores. Our long-term borrowing has reduced from Rs. 2,706 crores to Rs. 2,458 crores and our goodwill has reduced from Rs. 1,333 crores to Rs. 713 crores due to impairment of the French subsidiary and our fixed asset has reduced from Rs. 2,140 crores to Rs. 1,716 crores due to the R&D which was being capitalized has now been expensed off and the cash which was Rs. 700 crores is now Rs. 1,938 crores as of September 2012. If you see some of the financial ratios that we have for the quarter ending, these are based on trailing 12 months sales, adjusted EBITDA, adjusted EBIT and adjusted PAT. Our return on capital employed that is EBIT on capital employed is 31% and our return on net worth that is PAT on net worth is 58%. Our net debt to equity is 0.5. Our net operating working capital to sale is 25%. Our EBITDA to net debt is 1.5 and our interest coverage ratio that is EBIT on interest is 8.1 times.

I will share with you a little bit about the various businesses that we have and how they have performed to give you a business summary of the same. Our US business which was \$ 96 million in the last year same quarter is now at \$ 118 million showing a growth of 47% in INR terms and 22% in dollar terms and for the first half it has grown by 61% in INR terms and 33% in dollar terms. For the first half we have launched 8 new products. LEC which we launched in April was our first authorized generic and Entacapone is the second one that we have launched on 1st October. Our UK operations has grown from £ 24.5 to £ 26.3 which is 7% in pound terms in a market that is depressed and stagnant and in INR terms it is a growth of 26%. We have launched 3 products in Q2 and 6 in the first half and we continue to be the #2 generic company in hospitals and #3 generic company overall in UK. Ireland in spite of the depressed and de-growth in the pharmaceutical market we have done fairly well and grown from some € 6.12 million to € 7.62 million which is a growth of 24% in Euro terms and 32% in INR terms and we have launched 25 products in the first half and we continue to be the largest branded generic player with 30% market share.

Slide #33, our presence in emerging markets - we have grown by 19% in quarter 2 and 14% in the first half. Our India business has not performed as expected and we have grown by 3% in the quarter and during these 6 months we have restructured the sales and marketing organization of our India business to make it more aligned to various customer segments that we are targeting and I am sure that with the coming half the business would improve in the Indian market and the emerging market operations has grown by 92% in the second quarter. Over the last 6 months, coming to Slide #34, we have won a number of awards as an organization and I thought it would be important to present this to the community. Pharmexcil Award which is the highest number of patents filed by an Indian company in India we have won fourth year in a row. DIANA Award which is an award that is given to a US company in sales and marketing - a mid-level generic US company - for having one of the best levels of customer service of 99.7%, Wockhardt USA has won that award. The Frost and Sullivan Award which is India healthcare excellence award, lifetime achievement award was given to our Chairman Dr. Habil Khorakiwala; Investors and People Awards was awarded to our UK business for investing in the people and the community that they work in. The ICICI India Inclusive Award under corporate category of best social work and primary health has been won by Wockhardt Foundation. The CLO Award India has been awarded by the TISS (Tata Institute of Social Sciences) for the best mobile learning program to Wockhardt for the initiative we have taken for the Indian market.. We have won the best corporate website bronze medal by the Association of Business Communicators for our website, Wockhardt corporate website. Zahabiya Khorakiwala, Managing Director, of Wockhardt Hospitals has won the Most Promising Business Woman in India in Indian

Business Award and our Chairman Dr. Habil Khorakiwala and Mrs. Nafisa Khorikiwala have been inducted in the Arch C. Klumph Society as its member as a recognition for unflinching support for major social projects.

Coming to Slide #36, as we had done last time in our investor presentation we thought it would be prudent to provide comparative analysis for better appreciation of our performance with respect to our peers and we have done the same for Q2 as well as for H1. So if you look at our sales, in terms of our sales in absolute numbers we had Rs. 1,347 crores and among the top 7 companies we are #7 but if you see sales growth we are 29% which is among the top three in the industry. Similarly if you look at EBITDA growth we are among the top three in the industry with an absolute EBITDA Rs. 517 crores which is #four in the industry. If you see our Slide #38, if you see our EBITDA margins we are among the top three, we are number two at 38% EBITDA margin. Similarly if we see our PAT in terms of the absolute PAT we are at #2 in the industry and among the top three with a growth of 254%. In terms of PAT margins for the current quarter our PAT margin of 33.6% is the highest in the industry and we are in the top three. Moving to Slide #41 which provides the peer comparison for the H1 2012-13 our sales at Rs. 2,689 crores is 6th among the top seven but in terms of sales growth at 32% we are among the top three. Similarly in EBITDA in absolute terms we are at #5. But in terms of EBITDA growth at 77% we are among the top three and absolute EBITDA for H1 is Rs. 959 crores. In terms of EBITDA margins for the first half we are at 35.7% EBITDA margins which is at #2 with in the industry.

Slide #44, in terms of our PAT growth at 159% we have had the highest PAT growth for H1 and in absolute numbers at Rs. 831 crores we are in the third position. In terms of the PAT margins for H1, we are at #1 position at 30.9% and with significant improvement from last year 15.8% to 30.9%. Slide #46 - this is a comparison of our working capital as a percentage to sales and if I can draw your attention to NOWC (net operating working capital) divided by revenue, Wockhardt is at 25.3%. Cadila is at 25% and the others are at 27%, 34%, 36%. So it is among the best in the Industry. Similarly, if we go the other financial ratios, that is return on capital employed, our return on capital employed is at 31% which is the highest and similarly our return on net worth is at 58% which is the highest. Then I would like to end by reemphasizing on Slide #48 that we have built over time the sustainable business model and will be delivering consistent profits over time. Our business model is based on the three major pillars of research, globalization and operational excellence and research is our strategic core and we have a long term planning of research over more than 6 years. Our globalization allows us to reach into the large generic markets like US, UK and be in India and tap some of the emerging markets through various alliances and our continuous focus on operational excellence ensures cost effective operations and ensures that we are a fitter and trimmer organization and at the same time there is a focus on high value product launches. With that I would like to end my part of the investor presentation and I would like to open the session for question and answers.

Moderator

Ladies and gentlemen we will now begin the question and answer session. Our first question is from Ashwin Agarwal of Akash Ganga Investments. Please go ahead.

Ashwin Agarwal

Actually the Wockhardt management has shown the tenacity, in two years coming out of the financial difficulties and has bounced back very strongly to the top quartile and we are sure that going ahead Wockhardt will remain there and will do much better. My question is more on the US business since it is contributing a very large portion of our revenues and also to the profits. We had seen launch of very complex generic products like Toprol, Flonase, Flonase may be small, but Toprol is large and the management focus on complex generics. So if you can talk more about our

capabilities and future launches and also sustainability of revenues at such a high level in US and to grow on from there. If you can add some color to it?

Dr. Habil Khorakiwala We already have as Dr. Murtaza mentioned about 30 products and some of them are FTF filing about 3 or 4 of them and these products would be coming into the market in the next two years or so. But at the same time we continue to file these advanced technology products for the US market and also for European markets and we do believe that a combination of the products which we will have and which we will be introducing on one hand and the level of sales and marketing organization, we should be able to sustain a decent growth in years to come and normally we will end up filing about 15 product plus in a year and in the next couple of years one could easily consider that the additional at least 10 product launch will be there in the US market.

Ashwin Agarwal So we remain confident to grow even in FY14 and beyond in the US geography?

Dr. Habil Khorakiwala Absolutely.

Ashwin Agarwal Lastly I know India doesn't contribute a large part but the India business growth has disappointed us, looking into our capabilities of 3-4%. So with this restructuring can we grow it to like 12-13%, the industry kind of growth rate?

Dr. Habil Khorakiwala I think we could expect that level of growth in the second half of the year.

Moderator Thank you. Our next question is from Jigar Valia of OHM group. Please go ahead.

Jigar Valia Can you give some color on Geodon and Toprol to start with and also if you can give the average dollar rate for your US sales for the last 4-5 quarter if possible?

Dr. Habil Khorakiwala I think Toprol, I could mention this that whatever market share we are having we feel very comfortable that we will be able to maintain the market share on Toprol. There will be some price pressure in the second half to some extent but the market share is something which we hope that we will be able to maintain. As far as Ziprasidone is concerned I think we are having about 8-10% market share currently and that is something that we will be maintaining. As far as our US sales are concerned first half we had a sale of \$239 million and we believe that this is something which we will maintain second half if not improve upon it.

Jigar Valia Would it be possible to have the average currency for our US sales?

Dr. Habil Khorakiwala I think we can share some of these numbers with you one on one. At the moment we do not have it.

Moderator Thank you. Our next question is from Bhavin Shah of Dolat Capital. Please go ahead.

Bhavin Shah Few questions on the French business. What is the carrying value post the impairment that you have taken?

Dr. Habil Khorakiwala The goodwill carrying value is zero.

Bhavin Shah And the domestic business growth, you mentioned a possible ramp up in the second half - what will really drive that; is it going to be more of productivity creeping in or some sort of therapeutic growth?

- Dr. Habil Khorakiwala** See, in the first half year we have restructured the whole business and we moved lot of people in terms of restructuring in creating different divisions, which is far more customer focused and therefore there was a slight break in relationship between our field force and the doctors and this restructuring caused a kind of a problem. Therefore we have a lower growth. But we believe that second half onwards, it is actually the productivity which will drive the major part of our growth and we should be back to our normal 12%-15% level of growth in the second half.
- Bhavin Shah** Any field force additions that you are looking at?
- Dr. Habil Khorakiwala** No, we are not looking at field force additions at the moment; whatever has been there currently I think that will remain for a while and we will be driving our productivity improvement in the next several quarters.
- Bhavin Shah** And do you think the Balance Sheet leverage is comfortable at these levels or are you opting for a debt in the Balance Sheet for any possible takeover or anything of that sort?
- Dr. Habil Khorakiwala** I think at the moment the debt equity ratio is 0.5 and as I mentioned earlier also in the investors meeting that our strategic focus is on R&D and we are quite comfortable with our geography presence. So we are not at the moment or in near future looking for any kind of M&A activity.
- Bhavin Shah** And lastly on US - kind of **pace of** launches that we are having for every quarter - you think this is sustainable?
- Dr. Habil Khorakiwala** As I mentioned we should be launching about 10 products a year for the next couple of years.
- Moderator** Thank you very much. Our next question is from C Srihari of PCS Securities. Please go ahead.
- C Srihari** My first question pertains to the exceptional item. You reported a number of Rs. 39 crores but you have given two figures which have been netted from the sales of the nutrition business, it doesn't add up to these numbers. So is there any gap out there?
- Giri Giridhar** I think we had a gain as you know of **Rs. 1,187** crores against that what we have is an R&D write-off of Rs. 448 crores; we have a French goodwill write-off of around Rs. 621 crores and we have some other miscellaneous write-offs of approximately some impairment and is approximately about Rs. 26-27 crores of impairment on that and we had an associate company where there was an impairment - that is the Rs. 38 crores of impairment that you see actually.
- C Srihari** Is it possible to get the figure of Toprol - what are the Toprol sales currently?
- Dr. Habil Khorakiwala** It is generally from competitive dynamics point of view we do not prefer to give product wise breakup of our business.
- C Srihari** But unfortunately this happens to be the kind of the core of your business.
- Dr. Habil Khorakiwala** Yes I did mention to you in our last investor meeting that Toprol contributes about 14% of our top-line.

- C Srihari** FOREX gains or loses as the case may be - how has it been reported?
- Giri Giridhar** We don't hedge any of the FOREX actually. So all our positions are completely open actually and that is what it is. So, therefore the gains which occur, we sort of report as it is.
- C Srihari** So whatever FOREX gains you have reported that is it, you don't have any...
- Dr. Habil Khorakiwala** Yes these are inventory adjustments which takes place in normal accounting basis and that is getting reported as we do not hedge anything.
- C Srihari** So, that implies we don't have significant FOREX borrowings?
- Giri Giridhar** We don't have significant FOREX borrowings, in fact no. In India we don't have.
- Moderator** Thank you very much. Our next question is from KC Suri of Span Capital. Please go ahead.
- KC Suri** My first question was about the FOREX as you recently answered. Secondly now that we are kind of out of the woods and we have asked for getting out of the CDR, what is the roadmap we see ahead, of course you have given three horizons, but would you be in a position to give us some milestones in terms of revenues or profitability wise, because we have a very high EBITDA margins, how sustainable are those also? Your views on that, thank you.
- Dr. Habil Khorakiwala** I would generally mention few things, that whatever you have seen in our last year performance in our first half year, there is a degree of consistency in terms of our EBITDA margin and we believe that any EBITDA margin of 30% plus something is sustainable EBITDA margin we have going forward. In terms of our growth, we did indicate a 20% growth earlier and our guidance would remain at that level for the second half of this year.
- KC Suri** And would you be comfortable in giving some milestones in terms of say 3 years down the line or 5 years down the line - how big the size of Wockhardt do we see?
- Dr. Habil Khorakiwala** We will not be very comfortable saying that at this point in time but one thing is certain that inherent trends and the business model which we have will provide us very sustained growth over a long period of time.
- KC Suri** Could you speak more about your insulin and biosimilars in the emerging markets; how are we placed now and how big is that business right now?
- Dr. Murtaza Khorakiwala**
- Yes we have three products now in the biosimilars space; one is Insulin, second is long acting insulin that is Glargine and third is erythropoietin. We have all around the world in various emerging markets in India around 30-40 registrations and we are now over the last few years we have been in the process of commercializing and leveraging the value out of that business. We have registrations in South America, in Russia, in Africa and also we are looking at working towards having strategic alliances with companies in some of the big markets around the world. We are looking at identifying partners who have a very strong presence in diabetology and looking at an alliance and partnership with them for that market.

KC Suri And overall biosimilars, how big is this business right now for you? India and across EMs.

Dr. Murtaza Khorakiwala

I don't have the exact number, but I think it is more than Rs. 100 crores on an annualized basis.

Moderator Thank you. Our next question is from Bhagwan Chaudhary of India Nivesh Securities. Please go ahead.

Bhagwan Chaudhary Can you please share what kind of markets share we have in Toprol in US markets?

Dr. Habil Khorakiwala We generally don't give this information but these are available numbers from IMS and currently I can tell you it is around 20%.

Bhagwan Chaudhary And after entry of this of Dr. Reddy's product what kind of price erosion was there?

Dr. Habil Khorakiwala We don't expect very significant price erosion but there would be some.

Bhagwan Chaudhary And my second question pertains to insulin biosimilars. I was reading somewhere that we are into European markets in phase III clinical trials. So can you please update on that, at which stage are we in that market?

Dr. Habil Khorakiwala See, let me broadly mention to you that some of the insulin and analogue we have initiated clinical trials for US market and European market and we believe that by the time we are through with the clinical trial and approval process – for that we are looking at a period of about 3-4 years.

Bhagwan Chaudhary So we have just started?

Dr. Habil Khorakiwala Yes.

Moderator Thank you very much. Our next question is from Sameer Baisiwala of Morgan Stanley. Please go ahead.

Sameer Baisiwala Looking at Slide #26, while you were making the presentation, looks like the EBITDA margins have on a sequential basis from the June quarter to September quarter has gone up from 32.9% to 38.4%. So we are looking at a 5% point improvement. Can you just elaborate on this - what is really driving the quarter-on-quarter improvement in EBITDA?

Dr. Habil Khorakiwala Let me just at the outset mention that looking at our EBITDA margin, it would be more realistic to look at the first half year margin which is a reflective because partly in the second quarter the margin is coming out because of adjustment of inventory and half of the margin change is taking place because of that and the balance is obviously because of increasing business in the US and also the better quality product mix. So, first half year margin is around 35-36%. That is a more correct reflection of the performance of the company.

Sameer Baisiwala And the second question is for the insulin; what would be your current capacity utilization?

- Dr. Habil Khorakiwala** See this kind of micro info we generally do not provide for obviously competitive dynamics. But our approach generally, I can tell you that we have more than adequate capacity for all our products, whether it is insulin or pharmaceutical product or API to meet the demand. So we plan capacity ahead of demand and that has been our strategic approach in terms of creating manufacturing capacity.
- Sameer Baisiwala** And do you need to do additional CAPEX to cater to larger markets of US, Europe which I thought...
- Dr. Habil Khorakiwala** What we would have generally, is this year our CAPEX would be something of the order of \$ 30-40 million and going forward at least in the next year we look at around \$ 50 million our CAPEX to be there to meet some of these manufacturing capacity requirement.
- Sameer Baisiwala** All of these CAPEX is going to biosimilars or is it...?
- Dr. Habil Khorakiwala** No, this is spread out between biosimilars and pharmaceuticals.
- Sameer Baisiwala** And just one final question, unless I got it wrong, I have heard that at some point in time there were talks of may be equity raising. Given that you are on a fairly comfortable Balance Sheet situation, is this an option that the Company is still exploring?
- Dr. Habil Khorakiwala** I don't believe this talk has come out of Wockhardt or Wockhardt management and would not like to respond to market rumor.
- Sameer Baisiwala** The question here is would there be equity dilution in the near future or no?
- Dr. Habil Khorakiwala** No, we don't feel the need for it as you can see from our Balance Sheet at the moment.
- Moderator** Thank you very much. Our next question is from Deepak Malik of Emkay Global. Please go ahead.
- Deepak Malik** My first question is on the gross margins. If we see the gross margins, it has moved from 62% in the quarter one to 70% and there is an 8% increase in the gross margin and if I see US business is more or less constant quarter-on-quarter. The only difference which I can see is that the nutrition piece which has moved out of the numbers. So is it mainly because the nutrition business has moved out or inventory correction which you responded to the earlier question?
- Dr. Habil Khorakiwala** See I already answered this question - half of this impact is because of inventory related issues and the other half is even our US business has also contributed 2% more to our total sales, it has an impact and across the board there is slight improvement in our margin and operation. So it is not only US business which is contributing to our EBITDA margin. The very thrust of the organization is to look at all kinds of cost on a perpetual basis and bring about savings wherever it is possible.
- Deepak Malik** What was the gross margin in the nutrition business which has moved out?
- Dr. Habil Khorakiwala** We have already circulated these numbers. On a sale of 250 crores our gross margin was 48%. So may be you are right to some extent marginally it must have contributed.

Deepak Malik So you mean to say going forward this H1 performance is more relevant to see and that these are the margins which are sustainable in the coming quarters?

Dr. Habil Khorakiwala Yes I would think so.

Deepak Malik The other income used to be Rs. 7-9 crores in the earlier quarters, now it is Rs. 17 crores; so can you throw some light on why....

Giri Giridhar This is basically the interest income we have earned on Rs. 640 crores of divestment money which is lying in India.

Deepak Malik And if I come to the business in the US - it looks like the number is constant in the last two quarters. So how have you done in the new products which you have launched, mainly the Geodon?

Dr. Habil Khorakiwala See these products are introduced only at the fag end of the quarter that is late September. So part of the impact of these new launches one would see in the coming two quarters as we gain the market share.

Deepak Malik And on Comptan, when are we expecting that product?

Dr. Habil Khorakiwala It is already been launched on 1st October.

Deepak Malik And last thing on Tricor - are we expecting to come in the market by January next year?

Dr. Habil Khorakiwala As soon as we receive the US FDA approval we will be in the market. That I cannot predict.

Moderator Thank you. Our next question is from Sonal Gupta of UBS. Please go ahead.

Sonal Gupta Do you separate out API sales now or do you include that in the various geographies?

Habil Khorakiwala We do not segregate API sales, we included it in various geographies.

Sonal Gupta And could you give me the numbers for what is the revenues for the India business for this quarter?

Dr. Habil Khorakiwala We can share it with you separately.

Sonal Gupta And for Europe if possible?

Dr. Habil Khorakiwala We can share it with you but I think we have given the pie chart of the total sales So one will have numbers available. But we can share it with you in detail separately.

Sonal Gupta And on the R&D side, now going forward from Q2 onwards we are fully expensing R&D right?

Dr. Habil Khorakiwala That is correct. So Q2 results shows the R&D expenses as a part of the operational expenses

Sonal Gupta And even for the innovation side we are expensing?

Habil Khorakiwala Everything we have expensed out.

Sonal Gupta And what is the run-rate we expect as a percentage of sales would you see..?

Dr. Habil Khorakiwala As I have mentioned that our R&D expense will go up in coming quarters and as Dr. Murtaza mentioned earlier that you could expect 50-100 basis point improvement, increase I would say, on an annualized basis.

Sonal Gupta So you are looking at somewhere between 6-7%.

Dr. Habil Khorakiwala Yes, in fact this quarter we have 6.5%.

Sonal Gupta Okay so it should be 7% plus, is what you saying?

Dr. Habil Khorakiwala Yes, 50-100 basis points on an annualized basis.

Sonal Gupta And what is the sort of filing run-rate that you see on the ANDAs?

Dr. Habil Khorakiwala We should be filing about 15 this year, 15 plus.

Sonal Gupta And anything on the tax rate overall? How do we see that going forward on normalized basis?

Dr. Habil Khorakiwala I think we anticipate our tax rate at around 15% - few percentages plus or minus.

Sonal Gupta That is for FY13 you are saying right?

Dr. Habil Khorakiwala That is right.

Sonal Gupta But '14, how do we see that? Does that change significantly?

Dr. Habil Khorakiwala No, I think we would be reasonably stable on this level of tax rate.

Moderator Thank you very much. Our next question is from Ajay Sharma of Akshayam Capital. Please go ahead.

Ajay Sharma Is it possible to share the contribution of LEC exclusively during the quarter?

Dr. Habil Khorakiwala As I mentioned earlier that the product detail related information we generally do not wish to share mainly because of our competitive dynamics and so and so forth. But those who have an access to IMS that information is available through IMS.

Ajay Sharma Right, but was it a significant contributor to the US revenues and profitability during the quarter?

Dr. Habil Khorakiwala I could only tell you this way, innovator total annualized sale was \$55 million.

Ajay Sharma And secondly on the foreign currency debt which you have in your subsidiaries and now with the way the rupee has depreciated, so when you account for it in the consolidated Balance Sheet are you reflecting the higher rupee value for those loans?

Giri Giridhar Yes, what happens is that on the consolidated basis it goes into the foreign currency translation reserve on the balance sheet actually. So that is the standard practice.

Dr. Habil Khorakiwala It does get reflected in the debt numbers what you see in the Balance Sheet. The exchange rate as on the date of Balance Sheet.

Moderator Thank you. Our next question is from Jigar Valia of OHM Group. Please go ahead.

Jigar Valia Wanted to know if R&D would be entirely a part of other expense or it would be split between other expense and employee expense.

Giri Giridhar It will be split, because some of the revenue expenses would go along the different lines of P&L.

Jigar Valia So it would be spread across the P&L items in fact and not separately as an R&D head. And we don't have the gross debt number or some would be part of the current liabilities. Overall you would have repaid around Rs. 500 crores in first half?

Giri Giridhar Yes, we have repaid about Rs. 450 crores in the first half.

Jigar Valia Any scheduled repayment for second half, if you can guide? Approximate number?

Giri Giridhar We are in discussion with CDR in relation to the utilization of the divestment proceeds so that clarity we will receive shortly actually. Otherwise the routine repayments will continue.

Dr. Habil Khorakiwala Which is about Rs. 200-300 crores.

Giri Giridhar Yes about Rs. 100 crores, regular loan repayments will be only about 100 crores.

Dr. Habil Khorakiwala Yes, Rs. 100 crores a quarter.

Tushar Mistry Jigar, if you see the financial from Page #10 of the investor communication you will get the R&D expenses as a separate line item there.

Moderator Thank you. Our next question is from Dixit Doshi of Whitestone Financial Advisors. Please go ahead.

Dixit Doshi By what time can we expect to be out of this CDR and what will be our policy of dividend post CDR exit?

Dr. Habil Khorakiwala We have already requested CDR committee that we want to leave and we hope that during the end of this financial year or before that we should be out of CDR and obviously once we are out of CDR our board will consider dividend policy and in the past Wockhardt dividend policy was there; we have been paying dividends for all these years. So I don't see why we will change that policy.

Moderator Thank you very much. Ladies and gentlemen that was the last question. I would now like to hand the floor back to the management for closing comments.

Dr. Habil Khorakiwala Thank you very much for this interaction. Couple of things I just would like to mention before closing is - we would have every quarter, as we promised earlier, the Earnings Call on the next day at 11 am on the next working day and I would like to thank all of you for taking interest in Wockhardt and participating in this Earnings Call and thank you very much and wish you once again a wonderful new year for those who are from India.

Dr. Murtaza Khorakiwala

I would also like to wish once again, you and your families, a very Happy celebration during the New Year celebration and hope you have a very loving and prosperous next year. Thank you and wish you all the best.

Moderator

Thank you very much. Ladies and gentlemen on behalf of Wockhardt Limited that concludes this conference call. Thank you for joining us and you may now disconnect you lines.

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