

Wockhardt Limited
Quarterly Earnings Conference Call- Financial Year 2008
April 30, 2008

- Moderator: Good evening Ladies and Gentlemen. I am Rita, the moderator for this conference. Welcome to the Wockhardt Limited Conference Call. For the duration of the presentation, all participants' lines will be in a listen-only mode. I will be standing by for the question and answer session. I would now like to hand over the floor to Mr. Manish Gupta. Thank you and over to you sir.
- Manish Gupta: Thank you Rita. Good evening everyone. This is Manish Gupta here and I would like to welcome you all on behalf of Wockhardt Limited. Thank you for joining us. Before I start, let me just give you a brief excerpt of our presentation today. I will start with an overview of our financial performance with our performance in the international market. Subsequently, Mr. Sunil Khera will give you an overview of our India business followed by Rajiv Gandhi will explain to you financials for the quarter. This would be followed by a question and answer session. Now, just as we can start, 2007 has been a year of acquisitions in Wockhardt. We had done about three acquisitions or so in the last 18 months with expansion into Europe through Pinewood and through Negma.
- Moderator: Mr. Gupta, I am sorry to interrupt sir. Sir, your voice is breaking in the middle sir.
- Manish Gupta: Is the line better now?
- Moderator: Sir, while you speak, it is like, it is getting break sir.
- Manish Gupta: I don't know to help that. Is the line any better now because the signal is full.
- Moderator: Okay sir, you can go ahead sir.
- Manish Gupta: And I will try to speak slowly.
- Moderator: Yeah.
- Manish Gupta: Basically we will start with an overview of our financial performance for the quarter, an insight into our international business performance, followed by an overview of our India performance by Mr. Sunil Khera and of course a financial review, especially the extraordinary item that we have booked by Mr. Rajiv Gandhi. To begin with, 2007 has been a year of acquisitions by Wockhardt as we bid three transactions in the last about 18 months or so. We expanded into new geographies of Ireland through acquisition of Pinewood and into France through acquisition of Negma. In 07, we also gained critical mark through the strategic acquisition of Morton Grove in US. Clearly, the focus is on execution in 2008 and the performance in the first quarter has been a step in that

direction. I am happy to report that our sales has grown at over 50% in the current quarter to about 786 crores. In spite of acquisitions of some of the lower margin businesses, our operating profits have kept pace with our sales growth growing at about 50% again. Our net profit before extraordinary items has grown by 19% or so to 79 crores and this is due to an extremely sharp 338% increase in our interest cost which has really been towards funding of our new acquisition. This growth in sales has come from a robust performance both organically and inorganically. Our European business has grown at 70% in the quarter and this is powered by a spectacular performance in US...sorry UK markets wherein generics business has grown by about 29% or so, almost three times the market growth rate. Pinewood has not done too well in this quarter. It was hit very sharply because of decline in the Sterling against Euro. In fact, there was almost a 20% decline in Sterling and with UK business accounting for 50% of Pinewood revenues. France has grown considerably well and this has outperformed the market and especially our nebiivolol has grown by almost 50% in the quarter. Germany continues to be here and there in the sense that market continues to be extremely uncertain and we continue to perform in line with the market. Equally important US did extremely well in the current quarter. This was powered by both our portfolio which we acquired in the last quarter last year. Both the Morton Grove business which is a branded-generic business and the generic-generic business, both the portfolios did well, and erstwhile Wockhardt US portfolio also did very well because of some recent launches which included azithromycin and phenytoin. All in all, international business grew by 70% or so and Europe being spearheading. Even in India, our growth was 12% or so on an overall basis, but the formulation growth was 17% or so and Mr. Sunil Khera would give you a more insight into our performance on the India front. Mr. Khera, please...

Sunil Khera:

Thank you Manish. Good evening to all of you. I think as Manish mentioned that India formulation which is our main business in the Indian market continues to grow...provide a healthy growth. We have grown by 17%, although we had some shortfalls in the bulk. So, as a result, our overall growth in India business has been 12%. What is the positive aspect of India performance is all of our power brands continue to grow by anything between 16% to 18% and some of the new launches we did, particularly nutrition business has been highly successful. During the quarter, we also launched our three in-licensing products. These in-licensing agreements we had signed in 2007, but bringing the product to Indian market took us some time, so we launched one product for osteoarthritis, one hair and nail antioxidant, and first time we also launched a dermato-cosmeceutical product and the response of new launches of in-licensing products is quite impressive. This quarter has seen a significant change in our market share. First time, we crossed 2% market share. In fact, the Q1 our market share was 2.05 with nine of our brands featuring in top 300 and two of our brand improving on rank in the top 100 positions on that. So, as a result of this, we have moved in our rank. Also in the pharmaceutical industry, we had a first quarter rank of 15 and going forward we feel that this business trend would continue and

we should be able to further strengthen our market share as well as rank by sustaining this kind of a growth in quarter two also. Over to you.

Manish Gupta: I will request Mr. Rajiv Gandhi to give a perspective of this extraordinary item that we have booked for this quarter.

Rajiv Gandhi: Yeah, good evening everyone, I am Rajiv here. I would like to inform that we have made a provision in our books of accounts on a negative MTM. The company has entered into the hedging instrument which are long term in nature and to reduce the interest cost for the loans which the company has taken in the past and is outstanding as on March 31, 2008. Now, as per the risk policy, risk management policy, the company is hedging the interest for 50% of the long-term loans. As per the Institute of Chartered Accountants guideline, the company has to make the provision for the following instruments, (a) any type of derivative instruments whether for hedging or a speculation, the notional mark-to-market losses and profits will be charged to P&L account and (b) the hedging could be for receivables, payables, loan repayment, or interest payment, all such instruments covered by the guideline. Recently, all the companies have taken the position that regardless of whether it is a yearend, quarter end, any mark-to-market notional losses / profits have to be provided in the accounts. Since then, the company has taken a suitable cover for all the outstanding hedging contracts with the banks to cap the mark-to-market losses at the present level, and we have also given a note to accounts which is attached with our result, which also explains the quantum and other things on the mark-to-market losses. Thank you. Over to Manish.

Manish Gupta: Yeah. Now, if we can throw it open for question and answer session Rita.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, kindly press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. First in line, we have Mr. Sameer from Morgan Stanley. Over to you sir.

Mr. Sameer: Hi, good evening everyone. I was a little surprised to see forex losses considering that towards the later part of March, you had indicated in your press release that there are no losses on account of forex.

Rajiv Gandhi: Yeah, Sameer, if you read the press release, I would just like to quote from the press release that in the third paragraph we said in the last one year there has been a considerable currency fluctuations and in such situation it is a normal practice to protect the company from such currency fluctuations and genuine business-related hedging is done on a regular basis and Wockhardt has highly professional and expert teams that undertake normal business related to hedging for the past few years. In addition, our record of the last few years clearly demonstrate that there have been no losses whatsoever because of the business-related

hedging activity. So, there are two things over here, one is that whether the company is hedging or doing the speculative transactions, and we made it very clear that it is a normal hedging relating to the interest, but unfortunately you know recently the institute clarifies that any type of instrument whether it is speculative or no speculative, it is hedging or derivative, if there is a mark-to-market, you have to make a provision. So, we have done this.

Mr. Sameer: No, I understand your point very well Rajiv that, you know, you are not indulging any speculative activities, it is all related to hedging, but in that press release, you had mentioned that no losses have been incurred on account of hedging activities.

Rajiv Gandhi: Again, I am just restating here that there is no loss. It is a mark-to-market and there is no realized losses here.

Mr. Sameer: No, fair point, fair point. I think in the press release you were referring to both mark-to-market as well as realized losses or were you being very specific about just the realized losses?

Rajiv Gandhi: And what we have mentioned in the press release also that when there is a mark-to-market, it is specifically to the speculative transaction and here it is on hedging. Now, there is a press report also in between from the press saying that the institute has come out with a clarification that if there is a normal hedging and it is a risk policy of the company, then you need not have to make a provision for the mark-to-market, but later on about 15 to 20 days back, again the institute has clarified saying that any of the instrument, you have to make a provision, so this provision has come.

Mr. Sameer: So, which means that at the time of press release you had some losses on account of forex hedging, but you say that there is no losses simply because at that time you were not required to mark-to-market, is that correct?

Rajiv Gandhi: Yes and those losses are not the speculative, it is the normal hedging.

Mr. Sameer: Okay, so you had losses but because you are not required to report, therefore you said there are no losses.

Rajiv Gandhi: And there is no realized loss.

Mr. Sameer: Okay, fair point, I just wanted to confirm that.

Rajiv Gandhi: That's true.

Mr. Sameer: Second point Rajiv is about you know if I look at for the calendar year 2007, your net debt has gone up by roughly 420 million US.

Rajiv Gandhi: Yes.

Mr. Sameer: Yeah, net debt, so if you can just give us a broad breakup, I know there were a couple of acquisitions, how was this 420 million deployed?

Rajiv Gandhi: We have acquired during the year Negma Laboratories.

Mr. Sameer: Yeah.

Rajiv Gandhi: So, the total acquisition cost of the Negma Laboratories is around 200 million Euro.

Mr. Sameer: Yeah.

Rajiv Gandhi: So, we have taken LBO financing of around 110 million Euro. The 90 million Euro we have used from whatever cash we were having it at that time. So, the debt has been increased by 110 million Euro as far as the Negma is concerned. Later on, we have acquired Morton Grove and we have used about 40 million dollar, so the cash which we were carrying that was deployed for Morton Grove. In end of the year, if you see from the balance sheet then, we were having again a cash of about 90-95 million dollars. So, this is how the debt has increased and as on March 31, we have cash of about 65 million dollars.

Mr. Sameer: Yeah, I understand that Rajiv, but you know forget about cash in the debt, I am talking about net debt which was 420 million and if I take Negma and Morton Grove, they don't total up anywhere close to 420 million.

Rajiv Gandhi: 420 million was in the beginning of the year.

Mr. Sameer: No, no, during the course of 2007, from 1st January to 31st December, this was the net debt increase that you had over the course of the year.

Rajiv Gandhi: It is...as on December 2006, 445 million and then as on...

Mr. Sameer: 445 minus 220 which was in cash, so the net cash.

Rajiv Gandhi: Okay, I am just giving the debt first...Okay fine, so 445...

Mr. Sameer: Minus 220...

Rajiv Gandhi: 220...

Mr. Sameer: Is 220 roughly.

Rajiv Gandhi: So, it is around, around 225...

Mr. Sameer: Yeah.

Rajiv Gandhi: ...and as on December it is 435.

Mr. Sameer: That is 735 minus 96...

Rajiv Gandhi: Minus 96.

Mr. Sameer: So, it is about 640.

Rajiv Gandhi: It is around 640.

Mr. Sameer: So, 640 minus 220 is 420 million is the additional borrowings that you had in 2007.

Rajiv Gandhi: Yeah, so if you take the Negma borrowing, Negma acquisition, it is about 200 million Euro.

Mr. Sameer: Okay.

Rajiv Gandhi: So, it is about 300 million dollars.

Mr. Sameer: I thought it was 265 million dollar deal.

Rajiv Gandhi: It is 200 million right? 200 million Euros, so it is around 280 to 290 million dollar...

Mr. Sameer: Okay.

Rajiv Gandhi: ...and there is Morton Grove...

Mr. Sameer: Yeah.

Rajiv Gandhi: ...around 40 million.

Mr. Sameer: That's right.

Rajiv Gandhi: So, it is coming to around 320.

Mr. Sameer: That's right.

Rajiv Gandhi: And then there is a working capital which was increased and fixed asset which was increased and we have then acquired this CRO where we have taken minority position of 45%, so there we have deployed about 17 million.

Mr. Sameer: One seven?

Rajiv Gandhi: One seven.

Mr. Sameer: Okay.

Rajiv Gandhi: And there is a fixed asset addition during the year and there are working capital additions. So, what I will suggest is that I will give you later on after this con call a complete breakup of net debt position as on December 06 and 07.

Mr. Sameer: Okay.

Rajiv Gandhi: And then of course I can give you even for March also, that will clarify the issues.

Mr. Sameer: Okay, that will help. And one last question is on your overall debt. What is your cost of borrowing?

Rajiv Gandhi: It is a different cost. For example, let's say the Euro...

Mr. Sameer: No, just a weighted average.

Rajiv Gandhi: Okay, the weighted average on dollar terms if you take it will be around let's say 7%.

Mr. Sameer: Hello...

Rajiv Gandhi: Hello...

Mr. Sameer: Yes.

Rajiv Gandhi: Yeah, can you hear me?

Mr. Sameer: There is some disturbance in the middle, I don't know why.

Rajiv Gandhi: So, on an average, it is coming to about 7% on average borrowing and this was as on 2007.

Mr. Sameer: Okay, but I am referring to March quarter.

Rajiv Gandhi: Okay, March quarter, one second ah...Yeah, March quarter it is about 6.75.

Mr. Sameer: Okay. Because if I take your borrowings ex-FCCB which is you know 678 minus 108 which is about 570 million US and versus your borrowing cost for the quarter which is about 14 million dollars, so annualized say 56 million, so 56 million is the interest outgo over a total borrowings of 578 million, it takes us to roughly 9% to 10% actually. So, I just want to understand, you know, why is there a gap.

Rajiv Gandhi: No, then what will happen is that, you know, you have to take the borrowing of Indian also, Indian borrowing is around 180 crores, so that is a little high, it is around 11%.

Mr. Sameer: Okay.

Rajiv Gandhi: So, foreign currency is 6.75, Indian I think it is around 200 crore, you can take that 11% and there is an exchange fluctuation, during this quarter it is about 7 crore.

Mr. Sameer: Exchange fluctuation is it...

Rajiv Gandhi: What happens is that everytime we have to do...when we close the 31st March...

Mr. Sameer: Yeah.

Rajiv Gandhi: ...we have to bring the loan up to that 31st March dollar in Euro level, so compared to the December and March, the rupee has actually depreciated.

Mr. Sameer: It is a translation loss?

Rajiv Gandhi: Yeah, it is a translation loss, yeah.

Mr. Sameer: So, I need to take that out?

Rajiv Gandhi: Yeah, that is about 7 crores.

Mr. Sameer: Okay. So, your weighted average cost will be about 8% to 9% excluding this translation impact?

Rajiv Gandhi: That's right.

Mr. Sameer: Okay, thanks, that's all from my side.

Rajiv Gandhi: Okay.

Moderator: Thank you very much sir. Next in line, we have Mr. Ronat from Value Quest Research. Over to you sir.

Mr. Ronat: Good evening sir. I would like to know your FY09 expectation on the...how much growth do you expect for FY09?

Rajiv Gandhi: You are talking about the overall or specific?

Mr. Ronat: The overall growth, the revenue, according to what you expect in India, US, and UK?

Rajiv Gandhi: Manish...

Rajiv Gandhi: In India, we expect that our current growth formulation is around 17%. We are expecting that the trend will continue.

Mr. Ronat: Okay.

Rajiv Gandhi: We should be doing also around 17%.

Mr. Ronat: Okay.

Rajiv Gandhi: For the other part, Manish can you answer please.

Manish Gupta: I just wanted one clarity when you say FY09, are you referring to next year because we have Jan-Dec year. Hello...

Rajiv Gandhi: Yeah, I think, I suppose he is talking about December 2008.

Manish Gupta: December 2008. On that basis, on a pure organic basis, we should have between 13% to 15% growth in each of our respective businesses. Hello...

Mr. Ronat: Hello...

Manish Gupta: Yeah, did you get my answer?

Mr. Ronat: Actually I am asking you the growth for the US and UK.

Manish Gupta: That's what I am saying, between...on the organic basis because there is an inorganic element and that's how in the books it will reflect very, very differently.

Mr. Ronat: Okay.

Manish Gupta: Because Morton Grove was there only for two months last year.

Mr. Ronat: Okay.

Manish Gupta: Overall, our European businesses will grow between 13% to 15%.

Mr. Ronat: Okay.

Manish Gupta: And our US business on a standalone business will have a much faster growth between 30% to 40%.

Mr. Ronat: Okay, thank you.

Manish Gupta: Yeah, thank you.

Moderator: Mr. Ronat, are you done with your question sir? Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. Next in line, we have Ms. Monica from Avendis Capital. Over to you ma'am.

Ms. Monica: Hi, thank you for taking my questions. Couple of questions that I would like to ask. First if you could throw some light Manish on the Novo Nordisk's insulin pullout from the market, if you could give us some color on that and what are the upsides that could come Wockhardt's way.

Manish Gupta: See, so far in the UK market, Novo Nordisk and Wockhardt UK were the only two suppliers of porcine insulin. All others had already exited the bovine insulin, but the porcine insulin was another area wherein Novo Nordisk exited last year, last year means in the current year, sorry, and that is why now Wockhardt UK is the sole supplier. Obviously, it is not a

very large market, but that is where we now have a 100% captive market. You must be aware animal insulin market value in terms of per unit realization is far higher than human insulin per unit realization in UK. So, it is a substantially profitable business that we have now access to, but of course it is not very large by number.

Ms. Monica: What was the market like before Novo exited the market, what was the size?

Manish Gupta: Our insulin business in UK was about 3 million between the two which is porcine and bovine, 3 million Sterling, and that will grow because of this pullout.

Ms. Monica: Okay. You also talked about some contract manufacturing revenues actually coming your way, now correct if I am wrong, here you are talking largely about Byetta or is there anything else on a larger size of the contract?

Manish Gupta: No, these are new contracts which we are referring to. Obviously, we do not have the liberty to disclose names or the nature, but inherently these are biotech products and that the nature of the specialized contract manufacturing that Wockhardt UK offers, injectables and predominantly biotech kind of injectable facility. We have signed two potentially large contracts which will start fructifying in the next 12 to 18 months in terms of real serious business.

Ms. Monica: And these are done out of which facility?

Manish Gupta: Monica, does that answer your question?

Ms. Monica: Yeah, partly, but I was just understanding from which facility are these contracts going to be serviced.

Manish Gupta: Wockhardt UK.

Ms. Monica: What then... if you obviously cannot disclose much, but what are the peak sales that you expect from these contracts?

Manish Gupta: Each one of these would be a few million Sterling businesses, but given the specialized nature, these are immensely profitable businesses.

Ms. Monica: Okay. Just on contract manufacturing and on biotechnology, can you give us an idea about what is the capacity utilization in the Aurangabad SEZ currently?

Manish Gupta: Mr. Gandhi, would you be able to respond to that because I am not sure whether that plant is up and running.

Rajiv Gandhi: Yeah, actually, you know, right now the utilization is around 30% to 35% at present and since the export is going to start also, I think the utilization which we are projecting in another six months to go up 60% to 65%.

Ms. Monica: Okay. Do we have any plans to use this facility or leverage this asset for any contract manufacturing that could happen?

Rajiv Gandhi: No, I don't think so there is any plan to do that.

Ms. Monica: Okay. Just one question on the status of the demerger of the R&D, is there any time line which is set out?

Rajiv Gandhi: As we, you know, announced it will be from 1st January 2009, so we have to complete all the formalities in another 6 to 8 months and then the split will happen by yearend.

Ms. Monica: Okay. Mr. Gandhi, just one on the FCCB that is there, I believe it is expiring in September 2009.

Rajiv Gandhi: Yes.

Ms. Monica: And other than the 129% or 130% what do you say repayment clause, is there any other reset clause in the FCCB?

Rajiv Gandhi: No, it is not there.

Ms. Monica: No reset clause.

Rajiv Gandhi: No.

Ms. Monica: Okay. And idea on the CAPEX plans for this year, how much would you be incurring?

Rajiv Gandhi: 140 crore rupees.

Ms. Monica: And if you could break it up sir where would this money be going.

Rajiv Gandhi: Basically we are setting up the SEZ zone, the manufacturing facility.

Ms. Monica: In which place is this?

Rajiv Gandhi: It is near Aurangabad.

Ms. Monica: Okay.

Rajiv Gandhi: A place called Shendra and we have purchased last yearend from MIDC and we are setting up SEZ zone there. So, a manufacturing facility will be set up and majority of the payment will go into that.

Ms. Monica: Can you quantify, out of 140 crores, how much goes for the SEZ?

Rajiv Gandhi: Around 75 to 80 crores.

Ms. Monica: So, it still remains...about 70 odd crores still remain, so where would that go?

Rajiv Gandhi: Yeah, that will be at the various manufacturing facilities across, you know, some portion will go to UK, some will be in India, so like that.

Ms. Monica: Okay.

Rajiv Gandhi: And we are also coming out with a SAP implementation in Negma during the year.

Ms. Monica: Okay, okay, great. Thank you sir, thanks a lot.

Rajiv Gandhi: Thank you Monica.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Swaminathan from Kotak Securities. Over to you sir.

Mr. Swaminathan: Hello sir. Congratulations on the result that has been posted. Just two fundamental basic questions that I would like to ask. What is the macroeconomic perspective for the pharmaceutical industry as such and what are the key risks that you foresee in the coming year for this business, especially for Wockhardt?

Rajiv Gandhi: Are you talking about India or your talking about outside India or your talking of overall Wockhardt?

Mr. Swaminathan: I would be happy if you can give me, India and globally.

Rajiv Gandhi: Can you repeat your question again?

Mr. Swaminathan: Sir, what is the key risk that you face as far as Wockhardt is concerned in India and basically outside India and what is the macroeconomic currently for pharmaceutical industry as such which could be a trigger for Wockhardt?

Sunil Khera: See, Indian pharmaceutical industry, you know, is showing a healthy double digit growth and is one of the fastest growing pharmaceutical industry in the world. It is expected that it will continue to grow by anything 12% to 13% over the next couple of years because this year's growth now is about 16%. So, it is a good market, it is a growing market, and Wockhardt is also very comfortably placed in this market. If you see our last two years' performance, we have been outperforming the pharmaceutical industry and our current growth is also much higher in the industry, as I said during the beginning...

Mr. Swaminathan: Exactly.

Sunil Khera: that we have improved our rank significantly and we have crossed more than 2% market share now, so trends are looking very positive for us. We have a good product range in the growing market both in acute and

chronic therapy, there are a number of in-licensed products in the pipeline for launched. We have a big demand for nutritional business which is also growing at a very fast pace for us, so the prospective looks to be quite bright here in India.

Mr. Swaminathan: Okay.

Sunil Khera: Manish, would you like to share something on outside India on Wockhardt.

Manish Gupta: Just to give you a perspective, I think that this year probably is a overhang on the entire pharmaceutical industry, but will give us an opportunity for....

Rajiv Gandhi: Sir, sorry sir I am not able to hear you properly.

Manish Gupta: Yeah, what I am saying is clearly the key fundamental risk in the pharmaceutical industry which probably has an overhang over the entire industry, but more it is an opportunity for generic companies like us, the healthcare reforms being undertaken in most part of Europe.....

Mr. Swaminathan: Okay.

Manish Gupta:healthcare business. Clearly with the aging population and shrinking revenues, the healthcare expenses are shooting up in Europe and every country is trying their own different mechanisms to control the same.

Mr. Swaminathan: Okay.

Manish Gupta: While it has short-term implications in terms of disruptions, however, the generic seems to gain in that situation because clearly most countries are trying to fix now in some form or the other and there is some kind of incentivization to doctors and others which is occurring across the industry here. So, inherently it is a big risk for pharmaceutical industry, but really it is a clear opportunity for generic companies like ourselves of increasing trend towards genericization in most of Europe.

Mr. Swaminathan: Any key triggers...

Manish Gupta: Does that answer your question Swami?

Mr. Swaminathan: Yeah, yeah, definitely sir. But any key triggers that you could give for the business in the current year that could come up, like some area, like one area that you are focusing on this year.

Manish Gupta: With Wockhardt.

Mr. Swaminathan: Yeah, as far as Wockhardt is concerned.

Manish Gupta: Yeah. See, Wockhardt if you look at, Mr. Khera can obviously add from an India perspective, clearly this year is a year of execution and our entire focus is on creating value from all our acquired entities. You have seen performance in US. We now have portfolio worth about 100 million US dollars, which is a substantial business in US.

Mr. Swaminathan: Okay.

Manish Gupta: Morton Grove has some hidden jewels as was explained by Kurt last time and that is why you see a significant turnaround from the Morton Grove business as also a rub-off on Wockhardt US portfolio which has been bolstered by both unique products like azithromycin and phenytoin and also a rub-off a leadership position that we have in the liquid segment through Morton Grove acquisition.

Mr. Swaminathan: Okay.

Manish Gupta: So, we are very, very confident of US performing extremely well and in Europe, UK continues to be like torchbearer.

Mr. Swaminathan: Okay.

Manish Gupta: Some of the new contracts that we explained provides us additional momentum to that business.

Mr. Swaminathan: Okay.

Manish Gupta: So, all in all, we are extremely confident of ..

Mr. Swaminathan: Sir, I am not able to hear you please...

Manish Gupta: Did you hear the US part or you didn't hear the US part also?

Mr. Swaminathan: Could you please come back again on that?

Manish Gupta: Yeah, I am sorry, actually I am in a bit of ayeah, in the US, given our recent acquisition of Morton Grove and also some of our value-added portfolio fructifying which is products like azithromycin and phenytoin. Our US business is in a very good shape. We have been able to substantially turn around Morton Grove operations both in terms of top line and in terms of cost management and therefore our overall perspective of US business continues to be extremely robust for the current year. As far as Europe is concerned, the shining armor in our portfolio for the current year would be contract manufacturing in UK. It is doing well. As I mentioned, it grew 29 % in the first quarter. The growth going forward will continue to be robust as some of these new contracts start fructifying in terms of revenue opportunities in the current year.

Mr. Swaminathan: Okay. Fine sir, that's all from my part. Thank you.

Manish Gupta: Thank you Swami.

Moderator: Thank you very much sir. Next in line, we have Mr. Ranjit from Prabhudas Leeladhar. Over to you sir.

Mr. Ranjit: Good afternoon sir. I have two questions. One is that in-licensing opportunity which you said that you are launching three products, can you please repeat which are the segments and second question is regarding nutraceuticals. Except Farex and Proteinex, which are the other products and what are their growth rates?

Rajiv Gandhi: We have launched is three in-licensed products. One product is for osteoarthritis. It is a product called SAMMY. We have launched one product which is the hair and nail antioxidant, and other product launch is for wrinkles, that is a dermatocosmeceutical product. So, these are three products we have launched in Q1 for in-license.

Mr. Ranjit: And sir what is the average expectation of sales for these products?

Rajiv Gandhi: SAMMY looks to be very highly promising, could be something around convert a business of 8 to 10 crores, B-Lift could anything be around 5 to 7 crores, Novophane could be around 4 to 5 crores.

Mr. Ranjit: So, you are expecting about 20 crores from this in the first...

Rajiv Gandhi: This year, we are hoping that in-license should contribute around 35 to 36 crore business.

Mr. Ranjit: 35 to 36 crores. And sir regarding our nutraceutical business, we have Farex and Proteinex and what are their growth rate, domestic margin?

Rajiv Gandhi: Farex has been very significant because we also launched a new variant of Farex, Farex 100 g which was contributed very significantly in Farex cereal. Our overall infant formula growth has been around 21% because we also have another product which is original Wockhardt brand called Dexolac.

Mr. Ranjit: Yeah.

Rajiv Gandhi: Dexolac featured in the top 300 brands.

Mr. Ranjit: And what is the growth of that?

Rajiv Gandhi: Dexolac group is growing somewhat around 20%.

Mr. Ranjit: And what about Proteinex sir, which we acquired from Pfizer?

Rajiv Gandhi: Proteinex also is showing a significant growth. As on first quarter, it is about 8% to 10% growth.

Mr. Ranjit: And why the growth is so low as compared to other two products?

Rajiv Gandhi: Proteinex we are expecting because we are launching some variants in Q2. You will see a very significantly high growth in Q2.

Mr. Ranjit: Okay. So, the overall growth will be in the range 18% to 20%.

Rajiv Gandhi: Yes, roughly around that range.

Mr. Ranjit: Thank you so much and wish you all the best.

Rajiv Gandhi: Thank you very much, most welcome.

Moderator: Thank you very much sir. Next in line, we have Mr. Nair from Citigroup. Over to you sir.

Mr. Nair: Yeah, hi. I don't know whether this was mentioned earlier, but if you can just repeat the organic growth rates that you have achieved in each of the markets.

Rajiv Gandhi: Well, I can tell you India is all organic growth.

Mr. Nair: Okay.

Rajiv Gandhi: We have a formulation growth of 17% in India which is an absolute organic growth. Rest of the market growth is also organic growth. It is the ROW market which has reflected a growth of 55% in formulation and what we have lost here is a bulk order which is not executed in Q1, which will come up for execution in Q2.

Mr. Nair: Okay.

Rajiv Gandhi: Europe and US, Manish can you answer it please.

Manish Gupta: Yes. For Europe, the organic growth will be between 13% and 15% organic and balance would be inorganic coming out of Negma acquisition.

Mr. Nair: Okay.

Manish Gupta: US, the organic growth would be close to 30%.

Mr. Nair: 30%, okay thanks.

Manish Gupta: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Rahul from Capital Market. Over to you sir.

Mr. Rahul: Yeah, good evening sir. Just a few fundamental questions from my side. What kind of interest payment we are looking in calendar year FY09 because if I see the quarter one, it has jumped from 12.9 crores to 56 crore around. So, if I just analyze it, it comes to 230 crore level in calendar year 09, sorry 08, so what kind of interest payment are we

looking at? Is the company comfortable with this or we see going down from this level?

Rajiv Gandhi: We are looking around 180 to 200 crore during the whole year and again, you know, you have to little, you know, take into account the currency fluctuations. So, what happens is that if the rupee depreciates, you know, that impact will come in the interest. If the rupee appreciates, then again that impact will come in interest, but if you don't take the currency fluctuation around, it should be around 180 to 200 crores.

Mr. Rahul: Okay. Are you planning any additional debt in this fiscal year?

Rajiv Gandhi: No, we don't have any plans of taking additional debt.

Mr. Rahul: And sir what will be the effective tax rate if you can give a guidance on that?

Rajiv Gandhi: It should be around 21%.

Mr. Rahul: Okay, you are maintaining the quarter one...

Rajiv Gandhi:differ types, yeah.

Mr. Rahul: Okay, fine. And sir could you give what were the R&D expense in quarter one and what would it be for the full year?

Rajiv Gandhi: Quarter one, there is a revenue expenditure of about 14.25 crores.

Mr. Rahul: Okay.

Rajiv Gandhi: There is a deferred revenue of about 24 crores.

Mr. Rahul: Okay.

Rajiv Gandhi: The capital expenditure is about 4 crore. The total is about 42 crore.

Mr. Rahul: Okay. And sir what could be this for the full year?

Rajiv Gandhi: I think that quarter-to-quarter this expenditure will be more or less in the same line.

Mr. Rahul: Okay, fine. So, we are looking at R&D of around 200 crores for the full year.

Rajiv Gandhi: Yeah, around 175 to 180.

Mr. Rahul: Fine, thank you very much sir, thanks.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. Next is a followup question from Ms. Monica from Avendis Capital. Over to you ma'am.

Ms. Monica: Yeah, hi. Just one question of Glargine, when do we expect to launch this?

Rajiv Gandhi: We are looking at launching in Q3 ma'am.

Ms. Monica: Q3, and what would your estimate of peak sales be?

Rajiv Gandhi: I don't think right now we can really give you much information on that because we are still working on a business model. As you know, this will be the second launch of Glargine in the global market.

Ms. Monica: Right.

Rajiv Gandhi: But I can assure you it would be a very high level of business coming out of this product.

Ms. Monica: Great. Also, can you give us some idea about your field force strength currently in the domestic market?

Rajiv Gandhi: Total field force strength?

Ms. Monica: Yeah.

Rajiv Gandhi: We have 1562 territory managers.

Ms. Monica: 1562, okay, thank you so much.

Moderator: Thank you very much ma'am. Next in line, we have Mr. Agarwal from SSKI Securities. Over to you sir.

Mr. Agarwal: Hi, good evening Mr. Gandhi. Just this one question on this MTM laws, I mean you have said that you have taken some measures to kind of ensure that this law doesn't go beyond this, I mean are there any circumstances, you know, in terms of current movements and all, which one has to really watch out for where some of these things can get repeated again.

Rajiv Gandhi: What happened that we have worked with the bankers and we have capped these losses beyond this level. So, that way, whatever loss which we have shown in March 31, 2008, we have learnt that talking with the bankers. So, now suppose let's say the contract gets over, then probably, you know, the MTM will get reversed since there is knockout conditions also in the contract. So, there may not be further losses on this contract.

Mr. Agarwal: Are we not looking at any...in any circumstances, we are looking any more MTM or when contracts kind of expire, those kind of losses really coming in account of these forex hedging.

Rajiv Gandhi: Yeah, whatever contracts which are outstanding, there may not be any further loss on this.

Mr. Agarwal: Okay sir, thank you.

Moderator: Thank you very much sir. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Manish Gupta for the final remarks.

Manish Again: Yeah, thank you again. I would like to thank everyone for taking time out and participating with us in this management call. We will be happy to engage in a dialogue in case there are subsequent questions. Please feel free to contact us. Thank you once again for your time.

Moderator: Ladies and Gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.
