

Transcript

Conference Call of Wanbury Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I'm Gopal, moderator for this conference. Welcome to the conference call of Wanbury Limited. We have with us today Mr. K. Chandran, Whole-time Director, Mr. K. R. N. Moorthy, Deputy Managing Director, and Mr. Ashok Shinkar, Director Corporate Finance of Wanbury Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session, at that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Ashok Shinkar. Please go ahead sir.

Ashok Shinkar: Once again good evening and welcome to all of you to this quarter and 18 months period ended 30th September 2008 earnings call. I have Mr. K Chandran, Whole time Director and Promoter of the company and Mr. Moorthy who is the Deputy Managing Director of the company. They will give an overview of the company and discuss the performance highlights. I hope you have all received our quarter and 18 months period ended 30th September 2008 financials and investor update. It would be appropriate to mention that the discussion today may include certain forward looking statements and these must be viewed in conjunction with the risk that our business faces. I

would now like to hand over this call to Mr. Chandran.

Chandran:

Our total income for the period ended 30th September 2008 (18 months) is Rs. 630 crore comprising Rs. 400 crore on standalone basis and Rs. 230 crore from subsidiaries.

Consolidated EBITDA is Rs. 99.09 crore comprising Rs. 57.4 crore on standalone basis and Rs. 41.7 crore on account of subsidiaries. Consolidated EBIDTA margins stood at 16.02%. Standalone EBIDTA margin is 14.77% and EBIDTA margin for subsidiaries is 18.14%

Interest cost on consolidated basis is Rs. 36.93 crore. The Company on standalone basis paid interest of Rs. 19.85 crore and subsidiaries paid Rs. 17.1 crore. Interest cost comprised 5.1% of the standalone margins and 7.43% of the subsidiary margins. Amortization and one time exceptional items comprised 4.5% of consolidated margins, 1.8% of the standalone margins and 9.03% of the subsidiary margins.

Consolidated PBT is Rs. 34.30 crore comprising Rs. 30.4 crore on standalone basis and Rs. 3.9 crore on account of subsidiaries. Consolidated PBT margins stood at 5.54%. Standalone PBT margin is 7.83% and PBT margin for subsidiaries is 1.69%

Consolidated PAT is Rs. 31.53 crore comprising Rs. 29.77 crore on standalone basis and Rs. 1.76 crore on account of subsidiaries. Consolidated PAT margins stood at 5.10%. Standalone PAT margin is 7.67% and PAT margin for subsidiaries is 0.77%

Now, let us look at some of the operational highlights.

Highlights of the API business: As you are aware, we remain a dominant player in Metformin.

- We have started backward integration of Metformin process, which would save up to Rs. 9 crore p.a.
- Our Supply chain has improved by setting up of Ningxia Wanbury Fine Chemicals Limited for sourcing raw materials from China
- With our Profit Enhancement Program (PEP initiative) we have improved our Process/Productivity Rs. 6 crore (approx.) p.a.
- We have turned around DOCL successfully and merged it with Wanbury
- We have also merged and integrated PPIL in operations
- We have commenced China Operations by opening our office Ningxia Wanbury Fine Chemicals Ltd.
- We have filed 4 new DMFs namely, Losartan potassium, Levetiracetam, Mefenamic Acid, Sertraline HCL

CRAMS

- We have bagged Rs.40 crore CRAMS order from Pfizer, out of which Rs. 25 crore (approx.) has already been executed.
- The Company has opened a Swiss Office for CRAMS marketing

Highlights of Formulations: Our domestic formulation division:

- Has moved from 89th Position to 56th as per ORG-IMS and is currently ranked 48th.
- We are the fastest growing Indian Pharma Company in top150 companies as per ORG IMS
- One of our products Cpink was awarded “Best Launch of 2006-07” by ORG IMS. Annualized sales of this brand is more than Rs. 25 crore
- 4 of our brands are within “top 3 brands” of respective segments
- We have launched a new division called “SurgLife”, which will cater to Surgery and GI segment
- We have successfully launched new value added branded generics – Cdense and Nitrofur-SR

Highlights of Cantabria Pharma: Our Spain subsidiary Cantabria Pharma S.L.:

- Launched three new products Epilmax, Flaxen and Nasotricin, each with a sales potential of over Euro 1 million
- We have invested over Euro 1.5 million for seeking regulating approvals, which will result in approvals for 8 new branded generics in the next financial year
- We are in advanced stage of discussion for In-licensing, which would result in the launch of three brands in the next 6-12 months

- We have carried out a re-organization of the Sales force. We are further replacing low performing managers and representatives, which would be completed in the next 3 months
- We have appointed E&Y as the Internal / Management auditor
- We have also appointed Lowendall Masai for cost cutting initiatives, and we expect to save Euro 0.5 million by June, 2009.

For the details on standalone results for the period and the quarter, I shall handover the call to Mr. Moorthy.

Moorthy:

Thank you Chandran. Good evening everybody.

Our total income for the 18 month period ended 30th September 2008 on standalone basis is Rs. 400 crore comprising Rs. 245 crore of API, which is approximately 61% and Rs. 144 crore of domestic formulations, which is approx. 36% & other income of Rs. 11 crore, which is approx. 3% of the Total income.

EBITDA is Rs. 57.4 crore and PBT is Rs. 30.40 crore. The PAT is Rs. 29.80 crore.

Growth numbers for this period are not comparable with the previous 12 month period.

However, with regard to margins between these periods, the Company has improved operational performance.

Gross margins improved by 4% due to better plant efficiencies, improved supply chain management especially of formulations and improved sales price realizations. Staff cost increased by 0.35%. This increase is largely on account of addition to human resource to

strengthen the top management team. The field staff has been strengthened by 176 employees and further over 201 employees of DOCL were added to the payroll of the company due to the merger. Provisioning for foreign exchange loss and revaluation essentially on account of FCCBs reduced the margins by 3.7%. Also, other income was lower by 0.86%.

As a result EBIDTA margins were lower by 0.7% at 14.8% in comparison to 15.5% for the previous period.

Interest cost was higher by 2.3% and depreciation by 0.4%. Exceptional income accounted for 0.72% of Net Sales.

As a result PBT margins were lower by 2.68% at 7.8% in comparison to 10.51% for the previous period.

PAT margin for the period ended 30th September 2008 stood at 7.67% as compared to previous 12 month period PAT of 14.26%. In the previous period there was a Deferred Tax Asset recognized due to the PPIL merger, which increased the PAT of that period by 4%.

Q2FY09 vs. Q2FY08:

The Total Income has grown by 60% to Rs. 95 crore from Rs. 59 crore in Q2FY08

The Net sales for the quarter ended Sep 08 is Rs. 92.7 crore as compared to the Rs. 57.3 crore of the corresponding quarter. The API division contributes 62% to the Net Sales and the Domestic Formulations Contribute 38%. The Sales during the quarter showed a growth of 62% for API division and 62% growth for Domestic Formulations. Net total exports of the company aggregated to Rs. 45.2 crore as against Rs. 28.4 crore in the corresponding quarter posting a

growth of 59%. Exports constituted 49% of the Net Sales.

The EBIDTA for the quarter shows 31% growth from Rs. 10.7 crore to Rs. 14 crore. EBIDTA margins were lower by 3.6% at 15.1% as compared to 18.7% in the corresponding quarter mainly on account of higher COGS of 6.7%. This was due to higher raw material prices from China. The Other Income during the quarter was lower by 1.8%. In the corresponding quarter, there was an interest income on FD's on the FCCB proceeds. The aforesaid negative impact was offset by an improvement in margins on account of lower staff cost at 2.3%, forex gains of 0.4% and lower other expenditure at 1.4%. The raw material prices have already shown a decline and we expect better gross margins going forward.

The interest cost as a percentage of sales has reduced by 0.8%

The profit before tax shows 29% growth from Rs. 6.1 crore to Rs. 7.9 crore. PBT margins reduced by 2.2% to 8.5% from 10.7%

PAT has grown by approx. 8.8% from Rs.6.03 crore to Rs. 6.56 crore. PAT margins reduced by 3.5% to 7.1% from 10.5%

Chandran:

Thanks to all of you and now I would like to handover the call to Ashok who would speak to you about the future outlook of the company.

Ashok:

We have grown on an annualized basis at a CAGR of 74% over the last 5 years contributed both organically as well as through acquisitions. We continue to be bullish on all our existing business lines.

With regard to the Domestic Formulation Business, which is a branded generic business we have

grown by over 75% over the last two years and expect to continue to grow at over 40% going forward. This would be through new products and divisions being added.

With regard to API business we continue to be market leader in Metformin and have been successful in gaining significant US market share in other products like Tramadol and Salsalate.

With regard to CRAMS, which is one of our core focus areas, we have increased the order book with Pfizer and remain one of their most preferred vendors in India. With the opening of Zurich office, we have already added a number of new clients and projects to the order book. Over the next 2 to 3 years we are contemplating over USD100mn from CRAMS including through inorganic growth.

With regard to Cantabria Pharma, we have gone through a reorganization of that business and have added a pipeline of new products with a focus on CNS, Cardiovascular, Respiratory and Pain management, which are amongst the largest therapeutic segments in Spain and also rest of Europe. The one time reorganization costs have been written off in the period and have depressed the earnings. Going forward we expect these margins to increase substantially.

I think with that I would like to thank all of you for your patience and would like to hand over the call back to moderator

I would like to request all of you to kindly mail in your queries that remain unanswered during today's earnings call to investorrelations@wanbury.com.

Question and Answer Session

- Moderator:** First question comes from Mr. Sriram Rathi of Centrum Broking.
- Sriram Rathi:** How much is the sales from Cantabria in FY08 (18 months)?
- Ashok Shinkar:** Rs. 230 crore.
- Sriram Rathi:** How much is the EBIDTA margin from Cantabria sales?
- Ashok Shinkar:** EBIDTA margin is 18.14%.
- Sriram Rathi:** What is the contribution of APIs and domestic formulations in the standalone sales of Rs. 400 crore?
- Ashok Shinkar:** APIs is Rs. 245 crore, domestic formulations is Rs. 144 crore and other income is Rs. 11 crore.
- Sriram Rathi:** What is the outlook for Cantabria Pharma? Since you have launched three new products, what is your strategy over there? Would you continue to add new products over there or will you shift some Wanbury products to Cantabria or what's the strategy going forward for you there?
- Ashok Shinkar:** Cantabria has a very good domestic presence in Spain. What we have done is we have reorganized the allocation of resources, our human resources across Spain to make it more productive. So we are improving the productivity for them as they sell in Spain. Now with regard to the pipeline of products, we have about 18 products that we are likely to launch over the next 24 to 30 months and these products are mainly focused on the CNS category, cardiovascular, respiratory and pain management. We are making Cantabria Pharma a focused company in therapeutic area. We are also looking at in-licensing opportunities

in these specific areas or segment where we can launch innovative molecules in the Spanish market, because of our presence in this segment. Over a period of next three years, we are expecting to look at a turnover of about Euro 50 million.

Sriram Rathi: I think currently it is around Euro 33 million?

Ashok Shinkar: No, now it is in the region of about Euro 27 million on an annualized basis.

The next question you asked was about Indian products. Going forward we are looking at focusing on value added generics and finished dosage combination products, which we are developing at our R&D base out of India. We will be adding some of these products to the Cantabria pipeline over a period of time, but that would be beyond two and half, three year period.

Sriram Rathi: I think you don't have any manufacturing facility in Spain as of now?

Ashok Shinkar: In Spain we don't have any manufacturing facility. I mentioned about India. In India we have entered into a strategic association with Bravo Healthcare.

Sriram Rathi: Okay, so any strategy for bringing that manufacturing activities to India?

Ashok Shinkar: We don't intend to bring those manufacturing facilities to India.

Sriram Rathi: You are jointly developing with Bravo Healthcare as a formulation facility. Can you throw some light on that?

Ashok Shinkar: We have our own R&D where we are developing our products. At Bravo, we have got into a strategic association to manufacture our

products. So, that facility is getting upgraded for European standards after which it will start manufacturing and sell in Europe.

Moderator: Next question comes from Mr. Krishna Kiran of Capital Market.

Krishna Kiran: Congrats for a good set of numbers. What is the order book of CRAMS as of now?

K. R. N. Moorthy: Right now we have more than Rs. 60 crore of order in hand.

Krishna Kiran: How many total DMFs have been filed till now?

K. R. N. Moorthy: 27.

Krishna Kiran: How many products were launched till now?

K. R. N. Moorthy: Already we are exporting about 14 to US.

Krishna Kiran: What are the C-Pink and Rabiplus formulation sales for FY08 (18 months)?

K. R. N. Moorthy: C-Pink sales for FY08 (18 months) is Rs. 27 crore (approx.) and Rabiplus sales for FY08 (18 months) is Rs. 24 crore

Krishna Kiran: What is the debt on the books as on September 30th 2008?

Ashok Shinkar: Total debt is Rs. 273 crore.

Krishna Kiran: What is the CAPEX FY09?

Ashok Shinkar: CAPEX for FY09 is Rs. 30 crore

Krishna Kiran: In which areas you are incurring Rs. 30 crore?

Ashok Shinkar: We are improvising our process, doing some backward integration to improve our metformin manufacturing to reduce cost. This will reduce our cost by 8%-9%. We are also adding

capacities for few new products that we intend to launch and some of them we are already selling, so we are adding to our capacity and some capacity with regard to our R&D, general regulatory and CRAMS products also.

Krishna Kiran: Domestic formulation business has grown by 75% for last 2 years. So next year growth will be 40%, right?

Ashok Shinkar: Yes.

Moderator: Next question comes from Mr. Bhavin Shah of Dolat Capitals.

Bhavin Shah: On the margin front we are doing about 16% odd without FOREX loss, basically if you take Cantabria also and on the standalone front we are doing 13%, is there a case to be made when this will improve going forward with Cantabria or in the standalone operations?

Ashok Shinkar: If you see 18 months period in terms of our COGS we have improved by 4% and going forward with some of the CAPEX that we are incurring, like for metformin improvement in the process and also for higher realization products, I think going forward we were expecting an improvement in margins, also with formulations, which is a very scaleable business. As we increase the scale in that business we are expecting margins to improve. For the last couple of quarters we had launched a new division and the higher sales come from this division. We see an improvement even on the formulation side. With regard to Cantabria, what we did was restructuring after we have done this acquisition, which is more like a one time cost. So, if you see that, it is not going to get repeated and the sales there is going to increase, so we are expecting better margins coming from Cantabria also.

Bhavin Shah: Have you seen any changes on the working capital cycle?

K. R. N. Moorthy: We are working on improving the working capital cycle, especially in debtors there will be reduction and we will have better cash flow.

Bhavin Shah: So, receivables should be better compared to this?

K. R. N. Moorthy: Yes.

Bhavin Shah: How is the closure on the merger with PPIL going on?

Ashok Shinkar: PPIL is now a merged entity. This is of course without prejudice to the BIFR order that is awaited. Presently as it stands, we have Supreme Court, which has advised BIFR to re-look denovo into the scheme of rehabilitation of PPIL, whereas we have completed the entire settlement and already integrated PPIL in the operation. So, we expect and we are looking forward to BIFR basically to kind of re-look at the whole thing and pass the order.

Bhavin Shah: So it should be expected by September 09

Ashok Shinkar: It is very difficult to put a point of time on this because it is a judicial process; we would like to wait for the entire process to get through.

Bhavin Shah: On the domestic formulation business how many product launches are you targeting?

K. R. N. Moorthy: We are at present having three divisions, we are planning to launch in FY10 another three more divisions and all six put together there will be about 20 product launches.

Moderator: Next question comes from Mr. Surya Patra of Reliance Money.

- Surya Patra:** Good afternoon, sir and congratulations for the good set of numbers. I have some query on this margin front. You just indicated that the margins of Cantabria can be improved further; can you tell me how we can improve the margins for Cantabria pharma?
- Ashok Shinkar:** We are looking at margin improvement in various ways. One is, as a policy we are also adding new products where our GCs are going to be upwards of 70%, whereas new products that are going to come in the stable, we are looking at higher margins molecules. Second is, as the scale increases, your semi-variable and fixed overheads, your margins are likely to improve as a result of the expansion of the sales, which is going to happen with new product launches, which we will do every quarter on quarter. The other thing is, in terms of exceptional item we have got almost about 5.6% of our margins that were utilized for this one time restructuring that was done in Cantabria.
- Surya Patra:** What was the quantum of that one time cost for the Cantabria restructuring?
- Ashok Shinkar:** It was Rs. 12 crore - 13 crores.
- Surya Patra:** Currently what is the sales force? With the new product if we add up scale to Cantabria operations then margin would be improved, but certainly what is the current base of the sales force?
- K. Chandran:** We have 63 sales representatives over there, medical representatives and we have 6 area managers.
- Surya Patra:** Can I get the margins of our revenue mixes separately, like what is the margin we normally earn on domestic formulation and the API business separately?

- Ashok Shinkar:** Yeah, we have your e-mail, we will email you.
- Surya Patra:** Out of the total API business of Rs. 245 crore, what is the contribution of CRAMS?
- Ashok Shinkar:** On an annualized basis we are looking at about 28% of the API business.
- Ashok Shinkar:** See, this is an 18 month period, so if you are asking for percentage then the CRAMS business has grown over this period. If you look at the current run rate it will be quite different from what we are looking at for the 18 month period. If you see the current rate we are roughly looking at around Rs. 60 crores on Rs. 230 crore of total API business, it is about 26%.
- Surya Patra:** Have you made any additions for the CRAMS operation in last couple of quarters?
- K. R. N. Moorthy:** We have started an office in Switzerland for CRAMS basically and we also expanded capacity at our Tanuku plant for CRAMS. We also got more customers now in CRAMS. We already have about 15 projects going on in CRAMS.
- Surya Patra:** How many incremental projects have you added?
- K. R. N. Moorthy:** All these are new projects except one, which we are already doing with Pfizer, which was there last year also, all others are new.
- Surya Patra:** What about China operation that you have started?
- K. R. N. Moorthy:** That is basically for procurement of our main raw material for metformin, we have got an office there, which does the procurement.
- Surya Patra:** What is your strategy about marketing our CRAMS operation in a global arena?

- K. R. N. Moorthy:** We have got an office in Switzerland, which is only for CRAMS marketing. It is handled by a doctorate with a PhD and also a marketing person. There is a separate team for R&D working only on CRAMS and project team also.
- Moderator:** Next question comes from Mr. Tushar Manudani of Prabhudas Leeladhar.
- Tushar Manudani:** Are the 15 new products patented products or the generic ones?
- K. R. N. Moorthy:** 15 new products are mostly CRAMS products, some of them are patent expired, some are under patent, but we are only doing patent products, which are under intermediaries.
- Tushar Manudani:** We won't be getting into normal generic products?
- K. R. N. Moorthy:** These are all CRAMS; we are doing manufacturing activity based on the technology given.
- Tushar Manudani:** Are the 15 new products manufactured by us?
- K. R. N. Moorthy:** It is 100% manufactured by us.
- Ashok Shinkar:** Unlike APIs where we have a product and we can say, what the market size is and where we stand, the same is not applicable to CRAMS. These are very specific products or specific processes of materials that we have to deliver in terms of CRAMS.
- Tushar Manudani:** So, the contract time period is also limited
- K. R. N. Moorthy:** No, it is there for longer term, but it is all under CDA with respective customers and respective products, which we are making for them only,

exclusive. It is not a product, which we can sell to other customers.

Tushar Manudani: Okay fine

Ashok Shinkar: Yeah, thanks Gopal, I think once again I would like to thank all of you for your patience. I would also like to request all of you to kindly mail in your queries that remain unanswered during today's earnings call to investorrelations@wanbury.com. I will repeat that, it is investorrelations@wanbury.com. I think with that I would like to thank all of you. Wish you a great evening.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you, have a pleasant evening.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.