

Transcript

Conference Call of Wanbury Limited

Event Date / Time : 6th February 2008, 4 PM IST

Event Duration : 30 mins 32 secs

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. 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 Ms. Archana Bora from Concept PR.

Archana Bora: Thank you Gopal and I would also like to thank all the analysts for this tele conference, thanks a lot. Mr. Shinkar will first brief us with the results of the quarter, the performance in the time and then the floor will be open to questions. Here is Mr. Shinkar.

Ashok Shinkar: Thank you Archana. Welcome and good evening to all of you to this 2007-08 third quarter and 9 months earning call. Along with me are Mr. K. Chandran who is the whole time director and promotor of that company and Mr. K.R.N. Moorthy, Deputy Managing Director of the company. They will give an overview of the company and discuss the performance highlights. Well, I hope you have received our third quarter and 9 months financial sent out earlier. These financial numbers are now dated and for ease of discussion we will look at the consolidated numbers. Just to remind this call is being recorded and a replay of the call will be available for sometime, a call transcript will also be put on our website. 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 risks that our business faces. I would also like to request all of you to kindly send in your queries that remain unanswered during today's earning call to us at

investorrelations@wannbury.com. I would now like to hand over this call to Mr. K. Chandran. Thank you.

K. Chandran

Thanks Ashok. Good evening all of you. I welcome you all for joining us today for the conference call after announcement of the financial results for third quarter and nine months ended financial year 2007-08. First we will have a look at the operational highlight for the quarter.

Highlights for API:

We continue to have a leading position in production of metformin with sales at an all time high of 650 metric tones per month totaling to over 1,950 metric tons for the quarter with sales values of Rs.320 million. We are looking for further growth in the product in the years to come. We have received an order for metformin DC grade from an MNC pharmaceutical company for approximately Rs.60 million. We are looking forward for more orders from this customer. On the CRAMS front we have recently closed an order from an international pharmaceutical company for approximately Rs.100 million for gabapentin intermediate. We have also seen an increase in orders for Tramadol, Sertraline, and Diphenhydramine. Tramadol and Sertraline has the potential to have sales of over Rs. 100 million each within a year. We are making continuous efforts to develop the market for these products and expecting the sales to grow in the near future.

As you are already aware we have taken various initiatives to cut and control of our costs. We have achieved success on this front and are able to reduce the cost of manufacturing of our key products to the tune of Rs.150 million at current production levels in the next year.

Now coming to highlights of formulations, our formulation portfolio is performing well and we are expecting a sale of Rs.800 million in the financial year '07-'08. C Pink in the month of December '07 completed two years of record sales. It has also received an award of second best launch of the year from IMS ORG. We are expecting the turnover of C Pink to be Rs.150 million for the financial year '07-'08 as against the turnover of Rs.110 million in financial year '06-'07. This growth is approximately 45%. RabiPlus also completed the milestone of one year in the month of December '07. We are expecting the turnover of Rs.140 million in financial year 2008. RabiPlus was ranked 5th all India by IMS ORG in the month of November 2007. We are pleased to state that we have moved 24 notches in IMS ORG ranking to the 64th position in the

month of December '07 as against 89 in the month of April '07. ORG IMS also states that Wanbury is one of the fastest growing pharmaceutical companies in the formulation with a growth rate of over 84%.

Highlights for finance:

We had issued 1% unsecured foreign currency convertible bonds of Euro 15 million in two tranches namely foreign currency convertible A bonds of Rs.8 million and fully paid up foreign currency convertible B bonds of Euro 7 million, 10% paid up. The partly paid B bonds have been subscribed by Deutsche Bank with a conversion price of Rs.175 per equity share. The company has received the balance 90% unpaid amount of B bond that is Euro 6.30 million in December 2007.

Key appointments which we have made are, as we are expanding our operations in both API and formulations, we are appointing very senior professionals for various management positions. We have recently appointment Mr. C. M. Patankar as chief operating officer COO. He has rich experience of 35 years in the field of operations and was working in senior position in Sun Pharma, Hindustan Ciba-Geigy before he joined Wanbury. We have also appointed Mr. K. Ramesh as Director, commercial. He has rich experience of 23 years holding senior positions in Dr. Reddy's Laboratories, Crompton Greaves and Asian Paints. I would now like to hand over the call to Mr. K. R. N. Moorthy for the review of financials.

K. R. N. Moorthy:

Thanks Chandran. This is K. R. N. Moorthy here. Good evening everybody. Our third quarter numbers are already with you. Though the third quarter is generally a slow moving quarter for the pharma industry it has been a good quarter for us with growth across all our business segments. First we shall look at key consolidated financials. For the nine months consolidated total income is at Rs.2,728 million, an increase of 98% over the corresponding period last year. For the third quarter, consolidated total income is Rs.938 million an increase of 29% over third quarter of last year. Consolidated EBIDTA for the 9 months is Rs.531 million, an increase of 153% over the nine months of last year resulting in EBIDTA margin at 19% as against 15% achieved in the corresponding period last year. Within the third quarter consolidated EBIDTA is at Rs.135 million, up by 22% as against the third quarter of last year. EBIDTA margin is maintained at 14%. For the period ended nine months consolidated net profit is at Rs.260 million, an increase of

135% over the corresponding period last year. Consolidated net profit for the third quarter is up by 79% at 84 million from Rs.47 million in corresponding period last year. Net margin of nine months is approximately 10% as against 8% maintained last year. Net margin of third quarter is 9% as against 6% of last year. Of the total sale of Rs.2,728 million of the nine months' period Rs.1,210 million was from API business, Rs 590 million was from our domestic formulation business and Rs.928 million from our formulation business in Spain. Out of the total EBIDTA of Rs.531 million for the nine months period, Rs.250 million was from our API business approximately Rs.65 million was from our domestic business and Rs.216 million from our formulation business in Spain.

Let us now look at standalone Wanbury financials. For the nine months total income is at Rs.1,697 million, an increase of 63% over the corresponding period last year, the third quarter total income is Rs.587 million an increase of 53% over third quarter of last year. EBIDTA for nine months is Rs. 315 million an increase of 109% over corresponding period of the last year. This has resulted in an EBIDTA margin of 19% as against 16% in the corresponding period of last year. EBIDTA for the third quarter is Rs.110 million, as against Rs.51 million last year posting a growth of 115% over the last quarter. EBIDTA margin for the quarter is at 20% which is higher than 14% achieved last year. During the quarter an exceptional income of Rs.28 million has accrued on account of completion of milestone for rehabilitation of Bravo Health Care Limited. For the nine months, net profit stood at Rs.187 million, an increase of 93% over the nine months of last year. Net margin for the nine months is 12% as against 10% of last year. Net profit after tax for the third quarter is Rs. 72 million resulting in a margin of 13% as compared to Rs.31 million in the corresponding period last year. The third quarter material cost is 57% of net sales as against 54% last year. Staff cost has been maintained at 12% as last quarter. Basic weighted average EPS not annualized on a consolidated basis for the third quarter is Rs.5.05 up 80% as compared to Rs.2.81 for the corresponding period last year. On standalone basis EPS for nine months is Rs.13.07 up 59% from Rs.8.24 last year. With this I will now hand over to Mr. Chandran for concluding remarks.

K. Chandran:

Thank you Moorthy. This was the second quarter where we stated our consolidated numbers. The numbers have seen a good growth but as said earlier we are expecting the numbers to show sustainable growth in the coming

years. We are expecting our CRAMS business to grow faster and foreseeing approximately 20% of our API revenues to come from CRAMS business, which would be around Rs.650 to 700 million over the period 2 to 3 years. We are also expecting our Spanish business to grow over the coming years. The strategy for Cantabria Pharma SL includes introduction of new products in various therapeutic areas like psychiatry, CNS, respiratory, etc. We have entered into a strategic tie up with Bravo Health Care Limited, a formulations manufacturing company located at Belapur Navi Mumbai. It has a state of art WHO GMP approved formulation plant at Khopoli, Maharashtra. This gives us an alternative to manufacture and export our own formulation products and backend the operations at Cantabria Pharma by shifting production activities for some of our products to India. Now I hand over to Ashok Shinkar

Ashok Shinkar:

That was the update from Wanbury. Archana I would like to hand over this call back to you for the question answer session

Question and Answer Session

Moderator:

Yes. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

Our first question comes from Mr. Manoj Garg of Emkay Shares.

Manoj Garg:

Yeah. Good evening gentlemen and congratulations for good set of numbers. My first question is pertaining to your revenue breakup like if in the last conference call you had given the break up of your revenues where your domestic formulation for half year was around 41 crores with an EBIDTA margin of around 69 million. But if you see this quarter you say that the EBIDTA margin was around 65 million. So that means that there was degrowth in EBIDTA margins. Can you please put some light on that?

Ashok Shinkar:

This is as per budget, for our total numbers. The third quarter is generally always a healthy quarter. You will always see a dip in pharmaceutical formulation sales. So, to some extent there is a dip in the margin because of the increased level of business operations that we have now got into, but this is purely cyclical.

- Manoj Garg:** But I can understand about percentage dip in EBIDTA margins but in absolute numbers there is a dip from 69 million to 65 million. Even there was an increase in the revenue of around 18 crores.
- Ashok Shinkar:** Yes, we are also launching a new division in surgicals so we have started employing people for that. To some extent this will go on for about a quarter or so.
- Manoj Garg:** Then there was also a little degrowth in margins in your Spain business from 27.50% to 23.00%.
- Ashok Shinkar:** Yes, we had done a one time restructuring of the sales force there. So, basically we restructured and we had a onetime you know a payout as per Spanish law there, which has basically resulted in a lower margin.
- Manoj Garg:** So, what could be the amount?
- Ashok Shinkar:** It is about 1.2 million Euros.
- Manoj Garg:** Okay. Another question pertaining to...in terms of depreciation if you see on QOQ basis the depreciation charge has come down from 151 million to 135 million in standalone basis, any reason?
- Ashok Shinkar:** There has been a small asset sale that has resulted in that, some old equipment etc which is taken out.
- Manoj Garg:** Another thing if you see on QOQ basis there is a significant increase in the raw material cost again from 47% in Q2 to 51.5% in this current quarter.
- Ashok Shinkar:** I think this is mainly because of one of the raw materials which we buy from China, which is basically in short supply. That is why it has gone up for the quarter.
- Manoj Garg:** Is it that much significant, almost 400 bits?
- Ashok Shinkar:** Yeah, it has gone up almost, that particular raw material alone has gone up almost double the price the total effect is this much.
- Manoj Garg:** Can you name the raw material Sir?
- Ashok Shinkar:** DCDA
- Manoj Garg:** DCDA. Okay that's all from my side, thank you very much.

- Ashok Shinkar:** Thank you.
- Moderator:** Next question comes from Miss. Varsha of Nirmal Bang.
- Varsha:** Good-evening sir. Sir, can you give me the break-up of the sales for this quarter?
- Ashok Shinkar:** API is Rs. 43 Cr. and Rs. 18 Cr. is formulation.
- Varsha:** Okay sir thank you.
- Moderator:** Next question comes from Mr. Ranganathan of LKP Shares.
- Ranganathan:** Good-evening everybody. We actually get about close to 80% of revenues from APIs and going forward you expect that CRAMS could be about 20% of these revenues in two to three years' time. If you could give us some colour on the API side, if you could discuss key trends in your APIs among different geographies, how are the price trends, so that you could give us a clearer picture of how some of these products are moving in those key geographies.
- Ashok Shinkar:** Our major thrust area is the US markets and our API business, major business comes from US where we are having our number one product metformin more than 40% market share in US and our exports almost 65% goes to regulated market US, Europe and Australia and we get the highest price realization from this.
- Ranganathan:** So, going forward we have about 10% margins at the net level would you like to give any kind of guidance going forward say on the API side or on the formulation side?
- Ashok Shinkar:** See, like we are doing about 10%, like we mentioned earlier in the call, we have been able to cut down some of our cost by improving our processes. If you look at next year sales, we will be at least about 15 crores less in terms of our cost that is going to result in a key improvement in our margins. Overall, we are targeting for our standpoint about 3% to 4% increase at the net level.
- Ranganathan:** Okay.
- Ashok Shinkar:** Working on all fronts including at production levels marketing levels and even in the internal...
- K. Chandran:** Productivity for rep also we are increasing, so it will go up by almost 3%.

Ranganathan: Okay and lastly if you could give us some inputs on how we are progressing on the two sides i.e. PPIL as well as the Doctor's in terms of ramp-up in capacities?

Ashok Shinkar: DOCL is now fully integrated as part of Wanbury now, that's the plant where we have already in fact we have started manufacturing metformin there. We are manufacturing a couple of other products.

K. Chandran: Initially, they had only three products when we took over, right now we are manufacturing almost fourteen products there and we are also manufacturing metformin there because the capacity at our plants is full. So we are fully utilizing all the five blocks what they have.

Ranganathan: Okay is there room for adding further blocks there?

K. Chandran: Yes there is room for another three blocks which we will be doing in the course of time.

Ranganathan: Okay and at the PPIL?

K. Chandran: PPIL, one of their plants we have already been utilizing it under wet lease before even the merger and then when we merged it we increased the capacity from 250 tons to 350 tons per month.

Ranganathan: This will be mostly for the CRAMS?

K. Chandran: No, the PPIL plant what we have taken on wet lease which now has been merged into our company is not for CRAMS. It is for non regulatory market. Doctor's Organic is mainly for CRAMS. It is already doing CRAMS business with Pfizer.

Ashok Shinkar: Also other multinationals are looking at that plant.

Ranganathan: That's right. Okay, that's all from my side. Wish you all the best.

Ashok Shinkar: Thank you.

Moderator: Next question comes from Mr. Sriram of Centrum

Sriram: Hello, congratulations on a good set of numbers. I just wanted to ask about the exceptional income of Rs.28 million what exactly is it?

Ashok Shinkar: See, we have taken over the restructuring and rehabilitation of a company called Bravo Healthcare. Now,

this is a formulation company basically it fits into our strategy of back ending the formulations from Cantabria which will give us higher margins for that business. It will also forward integrate some our API and we can also get into the formulation exports. Now, this company basically has been troubled as it was an NPA and it has got WHO GMP approvals but is not yet ready for the regulated market. What we are doing is along with the promoters of this company we agreed to kind of infuse capital and upgrade the facility and basically make it synergistic with Wanbury so that it could get the sales also. So, as part of some of the milestones that we had set for ourselves we had one for restructuring the finances of the company. The first milestone payment that has come, it is on account of the financial restructuring of the company. Over the next six to nine months we will also be upgrading to European standards and upgrading it later to US FDA standards. So over two years we will be doing that. We will have some income on account of that while we are doing it.

Sriram: You have also picked up a 20% stake in that?

Ashok Shinkar: That's right.

Sriram: How much have you paid for that?

Ashok Shinkar: The total enterprise value that way is about close to 30 crores. So Equity value is about 10 crores Wanbury has taken under 20% of that company right now.

Sriram: So you have paid how much?

Ashok Shinkar: 10 crores we have valued the Equity. So we have paid about 2 crores.

Sriram: Consolidated total income for the quarter is Rs.937 million. Out of that how much is other income?

Ashok Shinkar: It is stated there, other income totally is about 5.37 crores,

Sriram: 5.37 crores?

Ashok Shinkar: Yeah.

Sriram: Okay. In the formulation segment how many new products have been launched in total? Have any products been launched during this quarter?

- K. Chandran:** During the quarter, we have started a one another new division called Osteo division we launched few products few antibiotics were launched in Osteo division and in our main division we are launching one block buster in this quarter. We are also starting a new division this quarter in surgery division.
- Sriram:** This quarter you will be doing, in which segment?
- K. Chandran:** Surgery.
- Sriram:** Okay. Can you just give once more the revenue break-up, domestic formulation and API?
- Ashok Shinkar:** Yeah, 43 crores is API, 18 crores is formulation.
- Sriram:** 43 and 18 is 61.
- Ashok Shinkar:** Total income. I am talking of total income it includes your other income. See other income includes all these DEPB benefits and all. So it is part of the total income. If you remove the other income part it is 38 and 18.
- Sriram:** 38 and 18? Okay. Since the raw material cost has increased during the quarter you are saying because of this raw material from China so, how does it look going forward? Will it remain at this level or we can expect some moderation over there?
- K. Chandran:** One more quarter it will remain at this level and then it will come down.
- Ashok Shinkar:** We are doing also besides...this is one thing on a quarter basis but some of the longer term changes that we have brought about one is the process changes which overall are going to reduce the cost of production per se and therefore the need of our yield improves. That is one part, second is we are also working towards some kind of a backward integration for a tie up with raw material manufacturers where we have already opened an office in China to essentially improve our raw material pricing. These are longer term measures that we are taking.
- Sriram:** Okay fine. And the difference in consolidated revenues and standalone revenues are because of Cantabria, right? So revenue from Cantabria is about Rs.37 crores?
- Ashok Shinkar:** Yeah.

- Sriram:** The difference in net profit is only because of that. That is around 12 million. The profitability is so low for Cantabria...
- Ashok Shinkar:** Like I said we did a sales force restructuring, etc there which is what has resulted in this.
- Sriram:** Okay, that is 1.2 million Euros.
- Ashok Shinkar:** See actually that company is profitable. What is happening here is it is already in cash. We are amortizing all those brands kept on writing those off. So that reduces our tax in that market. Otherwise it is more profitable than exchange.
- Sriram:** Your interest cost has also reduced in this quarter, sequentially from 31 million to 24 million; probably you must not have repaid any debt.
- Ashok Shinkar:** No what we have done is we have allocated some of these interest cost to Cantabria which we were taking earlier as part of re-allocation.
- Sriram:** On a consolidated basis it is still there?
- Ashok Shinkar:** Consolidated basis it will stand, that is there reflected in the EBIDTA.
- Sriram:** How is the price trend on metformin, has it reduced or...?
- K. Chandran:** It is going up.
- Sriram:** It is going up for metformin?
- Ashok Shinkar:** Yeah.
- Sriram:** Can you share the metformin sales during the quarter?
- Ashok Shinkar:** Metformin sales, it is around 32 crores.
- Sriram:** How much?
- Ashok Shinkar:** 32 crores.
- Ashok Shinkar:** Yeah, approximately.
- Sriram:** Okay thanks a lot. Thank you very much.
- Ashok Shinkar:** Thank you.

Moderator: Ladies and gentlemen. To ask a question please press * and 1 on your telephone keypad.

Moderator: Next there is a follow-up question by Mr. Manoj Garg of Emkay Shares.

Manoj Garg: Yes taking forward the same question which Sriram has asked about these one-time charge of 28 crores, do you expect even in future this kind of charge likely to happen once you are upgrading the facilities?

Ashok Shinkar: Well we have factored about say around 1^{1/2} crores over the next 2 years. 1^{1/2} to 2 crores depending on how fast we have placed it, over the next 2-3 years for 3 years. This year we have to upgrade within 18 months. That is our target.

Manoj Garg: Okay. In last conference call we have told that there are 5 companies 2 from US and 3 from Europe. They are looking forward to having a CRAMS business with us, any progress on that front sir?

K. Chandran: Initial some visits have happened and some are still under negotiation.

Manoj Garg: Okay and sir would you please like to tell what is your fully diluted equity post conversion on everything?

Ashok Shinkar: Around 21.95 million.

Manoj Garg: Thank you.

Moderator: There are no further questions. Now I hand over the floor to Ms Archana Bora for closing comments.

Archana Bora: Thanks Gopal. And thanks a lot to all the analysts for being a part of this tele conference. I would like to thank the management for giving elaborate answers to all the questions. Thank you everybody.

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 and have a pleasant evening.

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