

Transcript - Conference Call of Wanbury Limited

Event Date / Time : 16th November 2007, 4 PM IST
Event Duration : 49 mins 24 secs

Presentation Session

Moderator: Good evening ladies and gentlemen. I'm Shirley, moderator for this conference. Welcome to the conference call of Wanbury Limited. We have with us today Mr. Ashok Shinkar, Director - Corporate Finance, Mr. K. Chandran, Executive Director, Mr. KRN Moorthy, Deputy Managing Director of Wanbury Limited, and Ms. Archana Bora of Concept Public Relations. 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.

Archana Bora: Thank you Shirley and I would also like to thank all the analysts for being a part of this conference. The second quarter result of the Wanbury Limited has witnessed a considerable growth and the company is well on track with its objective. We all are here today to discuss the overall business of the company, and also to see if the markets that hold opportunity for Wanbury. I would like to pass on the conference call to Mr. Shinkar who will take you through the numbers.

Ashok Shinkar: Thank you Archana. Good evening and a warm welcome to our 2007-'08 second quarter and half-yearly earnings call. I am Ashok Shinkar, Director, Corporate Finance. Along with me are Mr. K. Chandran, who is the Executive Director and Promoter of the company, and Mr. K. R. N. Moorthy, who is the Deputy Managing Director of the company, and they will give an overview of the company and discuss the performance highlights. We hope you have received our second quarter and half-yearly financials sent out earlier. These financial numbers are unaudited and for ease of discussion, we will look at the consolidated numbers. Just as a reminder, this call is being recorded and a replay of the call will be available for some time. The call transcript will also be put on our web site soon. It would be appropriate to mention that the discussions today may include certain forward looking statements, and these must be viewed in conjunction with a risk that our business faces. Also I would like to request all of you to kindly send in your queries that remain unanswered during today's earnings call to me at ashok@wanbury.com, or to chetan@wanbury.com, or suraj@wanbury.com. I would like to now hand over the call to Mr. K. Chandran.

K. Chandran Thanks Ashok. Good evening and I welcome you all for joining us today for the conference call after the announcement of the financial results for the second quarter and 1st half of '07-'08. Before we get into a discussion of the operations, I would like to give an overview of Wanbury and key strategy highlights.

Wanbury is a pharmaceutical company with diversified revenue streams that includes API, mainly to the regulated market, sales of branded ethical formulations in India, branded formulations in Spain, and sales from our CRAMS business. Wanbury has grown at approximately 55% CAGR in sales over the last five years, and will continue to grow at the same rate over the next four years. Wanbury is the largest manufacturer of anti diabetic drug metformin with its current production capacity of approximately 8000 metric tonnes per annum, and is expected to grow to over 12,000 metric tonnes per annum in the next 12 to 18 months. Metformin sales, estimated for the current year shall exceed 1000 million rupees. Wanbury is presently catering to over 40% of the world market and about 50% of the US market. Wanbury has over 27 DMFs including products like Sertraline, Promethazine, Diphenhydramine, Clopidogrel, Tramadol, Carvedilol, etc, and is in the process of filing another six DMFs of three products over the next few months. Wanbury manufactures APIs from its three plants, two of which are already US FDA approved for multiproduct non-sterile APIs. Wanbury caters to over 100 customers across the globe including some of the top generic players in the US and Europe. Thus sales are well diversified with no dependency on a single customer. Wanbury has over the past 24 months acquired and merged Doctors Organic Chemicals Limited and Pharmaceutical Products of India Limited. With these acquisitions, the present product pipeline and facilities, we expect the company to deliver a growth of about 25 to 30% in APIs over the next three years, that's targeting approximately 3500 to 4000 million rupees. Wanbury is also in the Contract, Research, And Manufacturing Services, CRAMS as it is popularly known as, and manufactures for MNCs like Pfizer, Farma Projects, etc. We expect this CRAMS business to comprise about 65% of the API business in course of time. Wanbury presently has approximately 40 scientists at its R&D centers, which are located at Deonar for Formulations R&D and Turbhe for API. Over the next 12 to 18 months, Wanbury has set up a new R&D center near Patalganga, which will have a state-of-art closed cycle R&D center with over 150 scientists. This center shall expedite development and scale up of APIs for regulated market, develop new drug delivery platform and speciality formulations, especially to integrate with our Spanish business and also expand our CRAMS business.

In formulations, Wanbury has a branded ethical business catering mainly to pediatricians, gynecologists, orthopedics and general practitioners. We are close to 300 people in this business with an All India presence. Wanbury has many successful brands primarily two of which are C Pink and Rabiplus. C Pink was launched as the 442nd brand in the 4000 million Haematinic market. It is now ranked 3rd in this segment. C Pink sales for FY07 stood at approximately Rs. 110 million, and presently we are having a run rate of about 180 million in this brand. RabiPlus was launched as the 53rd brand in the 2000 million rupees Rabeprazole market, but now ranked 7th in this field with sales of approximately Rs. 26 million in the first three

months itself and is expected to post sales of about Rs. 160 million for the full year. We plan to grow at about 30% in this domestic formulations business.

We recently closed the acquisition of Cantabria Pharma SL in Spain. This is a purchase of a generic pharmaceutical business of IFC; with 17 brands it has strong presence across Spain. The business has an estimated sale of about Euro 26 million for FY08, with an EBITDA of over Euro 5 million. The base in Spain shall also be a good platform to foray the rest of Europe, US, and other regulated markets. Wanbury plans to expand this business in the near future through new products introductions mainly in CNS segment, to be sourced from India and also in licensed products. The significant top line and earnings growth, which you see in the consolidated numbers, comes as a result of this acquisition. We shall be consolidating the numbers of Cantabria with our year end figures.

In order to improve margins in Cantabria and as a measure to forward integrate API business, Wanbury has entered into a strategic alliance with a company called Bravo Healthcare Ltd. This alliance is to upgrade the formulations plant at Bravo Healthcare Ltd. in Maharashtra and get US FDA and UK MHRA approval for the sale and develop and sell products to Spain and other regulated markets.

Wanbury has acquired three companies in FY07. They are Pharmaceutical Products of India Limited, Doctors Organic Chemicals Limited, and Cantabria Pharma SL in Spain. The financial results for the year '06-'07 reflect the merger of PPIL with Wanbury, and the financial results for the year 2007-08 will reflect the merger of DOCL.

Future outlook: We expect a strong growth for Wanbury in the foreseeable future on the strength of its existing products lineup, facilities, and the acquisitions which we have made. We expect on consolidated basis, FY11 sales of approximately Rs.8500 to 9000 million, and EBITDA margin would improve to 22% and PBT margins to 17%. Now I request my colleague, Mr. K. R. N. Moorthy to first talk about the performance, financial highlights, and later I will come back with the closing remarks. Now I hand over to Moorthy.

K. R. N. Moorthy:

Thanks Chandran. This is K. R. N. Moorthy here. Good evening everybody. Our first half and second quarter numbers are already with you. It has been a good half year with growth across all our business segments. First, we shall look at key consolidated financials. For the first half, consolidated total income is at Rs. 1762 million, an increase of 168% over the first half of last year. For the second quarter, consolidated total income is Rs. 907 million, an increase of 146% over the second quarter last year. Consolidated EBITDA for the half year is Rs. 388 million, an increase of 288% over the first half of last year, resulting in EBITDA margin of 22% higher than 15% achieved in the first half of last year. Consolidated EBITDA is at Rs. 205

million during the second quarter is up 273%, higher than that of the second quarter last year. EBITDA margin is at 23% significantly higher than 15% achieved in second quarter last year. For the first half, consolidated net profit is at Rs. 175 million, an increase of 176% over the first half last year. Consolidated net profit for second quarter is up 148% at approximately Rs. 89 million from Rs. 35 million. Net margin for the first half is approximately 10% at the same level as for the first half of last year. Net margin of second quarter is almost same in the second quarter of last year, despite higher consolidated EBITDA margin of 22% in comparison to 15% of the previous six months of the year. The net profit margins are same on account of higher interest cost of Rs.79 million and high depreciation of Rs. 96 million, both of which are driven by acquisitions. Of the total sales of Rs. 1762 million for the six month period, Rs. 688 million was from our API business, Rs. 411 million was from our domestic formulations business, and Rs. 663 million from our formulations business in Spain. Out of the total EBITDA of Rs. 388 million for the six months period, Rs.136 million was from our API business; approximately Rs. 69 million was from domestic business, and Rs. 183 million from formulations business in Spain. With respect to EBITDA margin for the various businesses are 19% in API, 16% in domestic formulations and 27% in formulations business in Spain.

Let us now look at standalone Wanbury financials. For the first half, total income is at Rs.1110 million, an increase of 69% over the first half last year. The second quarter total income is Rs.592 million, an increase of 60% over second quarter of last year. EBITDA for the half yearly is Rs. 205 million, an increase of 105% over the first half of last year, resulting EBITDA margin is 19% as of 15% achieved in the first half of last year. EBITDA at Rs.107 million during the second quarter is 95% higher than that for the second quarter last year. EBITDA margin is at 18% which is higher than 16% achieved in second quarter last year. For the first half, net profit at Rs.114 million, an increase of 80% over the first half of last year. Net profit after tax for the second quarter is at 69% at Rs. 60 million, compared to Rs. 36 million in the second quarter last year. Net margin for the first half is 11% at the same level as the first half of last year. Net margin for the second quarter is 11%, almost same as in the second quarter of last year. The second quarter material cost is 47% of net sales, which is almost same as in the previous corresponding period, for the first half it is 49% compared to 48% of the same period last year. Staff cost for the quarter is 12% of net sales, compared to 12% for the corresponding last year. Basic weighted average, EPS, not annualized on consolidated basis, for the first half is Rs.12.24, up 168% as compared to Rs.4.79 for the corresponding period last year. On standalone basis, EPS for six months is Rs.8.09, up 69% from Rs.4.79 for the first half last year. EPS for the second quarter is Rs.4.26 as compared to Rs.2.69 for the corresponding period last year. With this I will now hand over to Mr. Chandran.

K. Chandran:

Thank you Moorthy. This was the first quarter where we have stated consolidated financials including all the businesses that have been acquired, merged over the last 24 months. Whereas there is a strong growth reflected in these numbers, we believe a full sales and earnings from these acquisitions shall be reflected over a period of five years, starting from next year. We are undergoing significant expansions at our US FDA approved facility in Tanuku. Substantial increase in production capacities should translate to higher revenues, which are likely to cross Rs.1000 million as compared to the present approximately Rs.400 million. Higher margins can be expected on account of better efficiency, and product mix, and increased sales to regulated markets from this facility. Wanbury has undertaken a study of its business process to improve operative margins, and a number of initiatives have already been undertaken in the first stage of this study to improve manufacturing cost side. Areas of improvement include capacity enhancement through improved product cycle time, cost savings in solvents recovery, product re engineering, yield improvements, etc. As per the present estimate and our objective, we expect about 1% improvement in the EBITDA margins of API as a result of these initiatives. Similarly in formulations, the initiatives have been towards improving selling prices, without affecting quantity and matching competition, restructuring the outsourcing of our production to excise free zones over the next quarter, in fact we shall be moving to more than 80% of our production to these excise free zones.

Wanbury has recently concluded a study with a leading global pharmaceutical consultant to assist the company in new products selection for the next five years. In fact these consultants are based in London. And this study is being undertaken considering the technical strength and facilities of Wanbury. The company shall be introducing products in therapeutic areas, including antihypertensive, anticonvulsant, antidepressants, anti-asthmatic, and anti-ulcer. The company last year successfully launched division in Orthopedics called 'OsteoLife' that is in our domestic formulations business. This division is doing quite well now. In the current year, Wanbury shall be launching another division catering to surgeons, hospitals, and nursing homes. The company is also taking various measures to streamline operations in Spain and improve efficiencies and integrate this company with Wanbury. Thank you.

Ashok Shinkar:

That was the update from Wanbury. Archana, we would like to hand this call back to you.

Question and Answer Session

Moderator:

Thank you ma'am. 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. Ranganathan of LKP Shares.

Ranganathan:

A couple of questions, firstly, we have now three facilities that is Patalganga, Tarapur, and the one at Tanuku. Now, we already have FDA approvals for two of them. Now, wanted to know what are the plans we have as far as the CRAMS business is concerned to ramp that up, especially after the acquisition of the PPIL unit, and also if you could share with us, in the current first half, that is on a consolidated basis, among your revenues, how much is coming from CRAMS, how much is from the domestic formulations, and how much is from the Spanish business?

K. R. N. Moorthy:

Okay, this is Moorthy here, let me reply you this question. As you are aware, our Patalganga plant and Tanuku plant are US FDA and Tarapur plant is a non-regulatory plant. And PPIL is recently acquired. What we have done is that as Mr. Chandran explained to you, we are already doing business with Pfizer in CRAMS at Tanuku, and we have already given our assignment to leading consultant in London to identify the products depending on our technical strengths and our capabilities in the plant, and we have shortlisted five multinational corporations with whom we are in dialogue. These are not completed yet, we cannot announce the names. And also, we have appointed a Swiss person and we are starting the office in the first week of January, based at Zurich, and he will be looking after this CRAMS business for Europe. And we have also appointed a person in US, not as a regular employee, but as an associate with us, to help us in our CRAMS business with US. There are two companies in US, and three companies in Europe. And one we are already doing business that is from Pfizer from US. And as far as breakup is concerned, in the first six months, API business is about Rs. 688 million, and formulations business is around Rs. 411 million, and Spain business is around Euro 663 million.

Ranganathan:

Spanish business you said is about Rs.60 Cr.. Okay, is it possible to give us a sense of the margins in the Spanish business?

K. R. N. Moorthy:

The EBITDA percentage in Spanish business is around 27%.

Ranganathan:

Second question is what would be your total debt in the books and what would be the tax rate that we can assume?

K. R. N. Moorthy:

Ashok will answer you that.

Ashok Shinkar:

Around Rs. 133 Cr. will be total debt.

Ranganathan:

Rs. 133 Cr.

Ashok Shinkar:

This is going up in terms of few borrowings that we are doing, that is at Wanbury. Additionally we have borrowings including

some preference shares, etc. If you add all of that, then it's about Rs. 167 Cr. These are typically mezzanine funding, so it is like preference shares.

Ranganathan: Right. And on the tax rate, that we can assume, would you be under the MAT or...

Ashok Shinkar: Yes, see, the thing is with these mergers that we have done in India, we have a tax credit basically. So that's exceeding 20 Cr. And that will be on MAT for the domestic, where we get a MAT credit also. And so far as Cantabria is concerned, with the amortization of the brands, etc, we can come at a much lower marginal rate in terms of the actual tax rate in...

Ranganathan: Okay. Lastly if you could, you are doing about 8000 tonnes on the metformin side, and which is about more than a 100 Cr., if you can give us a sense of how the price trends here vis-à-vis other players globally, and...

K. R. N. Moorthy: Basically in API business, price trend more or less almost everybody will be similar, variance may not be more than 5 to 10%. And our major business comes from US, so naturally in US we get the highest realizations, followed by business from Europe, again it is higher than what people can sell in domestic market, and third market we get is from Australia. Australia prices are equal to US. And our business in domestic market is predominantly from customers who are taking the material from us and re exporting it to Europe we call it as CoS grade. So our average realization is much better than most of the domestic players.

Ranganathan: Okay, thanks a lot. Wish you all the best. If there are any further questions, I will come back.

K. R. N. Moorthy: Thank you Mr. Ranganathan, thank you very much.

Moderator: I request the participants to press * and 1 for your questions. Our next question comes from Mr. Jinesh Gandhi of Motilal Oswal.

Jinesh Gandhi: Hi sir, good evening. My question is about your regulated market strategy, if you can elaborate on that? What is your strategy in terms of financing presence in regulated markets, primarily US and Europe, excluding Spain?

K. R. N. Moorthy: Sure. See all our products; we have started only with regulated markets. Even the first product, we started Salsalate, it was like a joint association with a company called (not sure) Chemical in USA, and then when we started metformin, metformin patents had not expired at that time, so we did that only. And now, next 25 APIs, what we have selected, with this leading consultant from London, is all with a patent expiration study of US and Europe up to 2017, and then shortlisted the products depending on our capabilities. So each and every product, which we develop, we put our Drug Master File in US, and we also apply

for certificate of suitability in Europe. Our Drug Master Files already are 27 and equal to that extent we have already submitted for EDQM approvals also and we have three EDQM approvals. Others are in the pipeline. So it's always, every API we manufacture, we only cater to regulated markets, or for those Indian consumers who use our products and make a value-added product for regulated markets.

Jinesh Gandhi: Okay, and what would be our current contribution from regulated markets, excluding the acquisition which we did?

K. R. N. Moorthy: In API business, almost 55% business from regulated markets.

Jinesh Gandhi: And in terms of total...

K. R. N. Moorthy: The rest of it is of course in domestic formulations, but whereas domestic sale of API again, almost 80% of the domestic API business also is regulated markets.

Jinesh Gandhi: That would be deemed exports.

K. R. N. Moorthy: Most of the business is only to the regulated markets in API.

Jinesh Gandhi: Okay, so how much that would be as a percentage of total sales?

K. R. N. Moorthy: Again total API business will be almost 80%.

Jinesh Gandhi: 80% of API sales.

K. R. N. Moorthy: Yes.

Jinesh Gandhi: Okay and API sales would be how much of total sales?

K. R. N. Moorthy: For the first half you are talking about? First half we have done about 69 Cr..

Jinesh Gandhi: Around 40%.

K. R. N. Moorthy: Sale is, absolute value is around 689 million.

Jinesh Gandhi: Okay, so that could be roughly around 40% of total sales.

K. R. N. Moorthy: Yes, including Spain.

Jinesh Gandhi: Okay. And going forward in this, how do you see your API business growing, do you see this share of regulated markets, which is currently around 30-32%, growing even further from this levels?

K. R. N. Moorthy: Yes, because all our products are growing at more than 25%. So, it will continuously grow. Regulated business will be in the same share.

Jinesh Gandhi: Okay, so it will be in range of 30-35%.

- K. R. N. Moorthy:** Yes, of the total company.
- Jinesh Gandhi:** Yes, obviously, of the total company. Okay, and coming to Spain, this was the first quarter of consolidation right?
- K. Chandran:** Yes.
- Jinesh Gandhi:** Okay. And given that in most of the European countries you are seeing government intervention in terms of pricing pressure, is that the case even in Spain, are you witnessing similar?
- Ashok Shinkar:** Yes, in Spain also prices are controlled by the government and there have been price reductions, which have happened in Spain and also in Cantabria products. But one area where Cantabria has got an advantage is that some of its products are out of price control. Like we have two large products, Varidasa, is one, and the second is Imunoferon. Both these products are out of price control, and they constitute almost 40% of the Cantabria business. So, yes, there has been some effects, which we were aware of it when we went into the acquisition, and I don't think there are any surprises, which we have, as of now. And the way we are trying to deal with the situation for the future years is that, we are introducing lot of new products and in the initial years, the prices are good, the margins are fairly good, and we are also in the process of launching newer divisions in Cantabria. We are also improving efficiencies of the sales force in Cantabria. We have restructured their territory. Previously the territories assigned to the sales representatives were not very scientifically worked out, so we have taken the help of IMS, who are the world leaders in strategically aligning territories, and they have done the strategy, the territory allocation for our sales representatives. So we have restructured territories also. So, on one hand we are improving efficiency in terms of improving the per representative productivity, on the other hand we are introducing newer products, which in initial years have got better margins.
- Jinesh Gandhi:** Right, okay. And you see margins to be stable at current trends, from 25-27%?
- Ashok Shinkar:** Yes. We will try to maintain those margins.
- Jinesh Gandhi:** Okay and you mentioned that you are looking at raising further funds, primarily through debt. What would be the quantum of the same?
- Ashok Shinkar:** See, if we are targeting about 850 Cr., its 8500 million, we are looking at another about 100-120 Cr. going forward over the next three years.
- Jinesh Gandhi:** Another Rs. 100-Rs. 120 Cr. per annum for next three years.
- Ashok Shinkar:** It is the total quantum that will be required plus (inaudible) for the next three years.

- Jinesh Gandhi:** Okay, so around 120 Cr. per annum.
- Ashok Shinkar:** If you are looking at maybe on a net debt basis, about Rs. 70 Cr. and equity about Rs. 45-50 Cr.
- Jinesh Gandhi:** Okay and I am not aware about what, where you would be using this, and what's the purpose of freezing this fund.
- Ashok Shinkar:** Typically there are two or three key initiatives, which we have already put in place. One is, we are expanding our R&D center. As Mr. Chandran mentioned, we have two R&D centers, one is for formulations at Deonar and one is at Turbhe for APIs, which basically houses about 40 scientists. We are scaling that up to about 150 under one roof in close to Patalganga, where we have our facility also. Now, that will basically be able to expedite our APIs, then through our NDDS products sustain and also spearhead our CRAMS further. So that is one piece of the expenditure. Then ongoing basically improvement in our current facilities for efficiencies, under the program that we have done for improving basically the production cycles, solvent recoveries, and those issues, some part of the expenditure will be for that, and predominantly for new units, that we will set up in the same existing facility, using the same utility. This is for scaling up our production capacity for some of our existing products and for new products.
- Jinesh Gandhi:** Right. Okay. And so would we be also looking at some equity financing in this?
- Ashok Shinkar:** Immediately no, but over the next three years we are looking at some equity funding out of this also.
- Jinesh Gandhi:** Okay. And any guidance which you can give for this year and next year?
- Ashok Shinkar:** In terms of the...
- Jinesh Gandhi:** Top line EBITDA and bottom line?
- Ashok Shinkar:** We have done about Rs. 176 Cr. in the first half. On a full year basis, based on where we are headed, we are looking at about Rs. 375 Cr., 3750 million as a top line. In terms of margin, we can look for slightly better margins than what we have had for the first half, because of the program that we have put in place. So, at a PAT level, we can look for maybe a percent's improvement in terms of our PAT margins.
- Jinesh Gandhi:** So, that will take full year margins to around 10 ½% kind?
- Ashok Shinkar:** Yes 10 ½-11%. Yes.
- Jinesh Gandhi:** Okay. And what do you expect for next year, FY09?
- Ashok Shinkar:** There are a lot of new units also coming in place, so at this point maybe we will give it a couple of quarters to pan out.

- Jinesh Gandhi:** And this 10 1/2- 11% for full year margins is after factoring in for higher interest expense?
- Ashok Shinkar:** Yes, all of that.
- Jinesh Gandhi:** Okay. That's all from my side. Thanks a lot.
- K. Chandran:** Thank you Mr. Gandhi.
- Moderator:** Our next question comes from Mr. Sukhwinder of Anagram Securities.
- Sukhwinder:** Good evening everyone. Couple of questions from my side. On the acquired business of Spain, could you give some sense of the growth rate in terms of sales and the EBITDA margins, and also if these brands are being manufactured in Spain, and is there any chances of it being shifted to India, which can further push up the EBITDA margins?
- K.Chandran:** This is a part of the business, which we have acquired. The current company was IFC Cantabria, and they had ethical business, which constituted a dermatological line of business, and the other was the ethical branded business, so we acquired the ethical branded business. So, in terms of growth in EBITDA...
- Ashok Shinkar:** We are basically targeting for about 15% in that market, based on standalone Spanish numbers. As a strategy, we have new initiatives in place, which we would not like to factor from a guidance perspective, because there we are looking at introducing a new division, we are also pouring in the rest of Europe, and we are back-ending some of the manufacturing into India. See, today in Spain, we basically have brands and marketing presence. We are outsourcing the production there, and that is one of the reasons why we also have better margins in Spain.
- Sukhwinder:** Means manufacturing is not done in Spain.
- Ashok Shinkar:** No, manufacturing is done by other entities in Spain. We are outsourcing the production in Spain. Now, what we can look for in course of time is a margin improvement by moving some of that production into India, which is where we have strategic alliance with Bravo Healthcare, once that upgrades to European GMP standards, we will be able to do some supplies from there. So we can look at some margin improvement coming on that account, but predominantly a new product that we are going to be introducing in Spain, those are really going to drive the growth. So, conservatively we can put it at about 15% on an average.
- Sukhwinder:** Sure. The API business, could you please give the break up of this API business among USA, and Europe, and what are the gross margins or EBITDA margin levels?

- Ashok Shinkar:** See, roughly about 80% of our API is to regulated markets. Now it's very difficult to categorize it, so geographically, because lets say Teva buys for US, it also buys for Germany, or for other countries, so that distinction is going to be little steep. But by and large we are focused on regulated markets; we would like to see all of our sales in APIs in regulated markets. Wherever we are not there, it is basically a filler till we get the approvals for selling the products there.
- Sukhwinder:** One last question. Could you give some status of the DMF filings, how many have been approved so far, and how many pending for approvals so far?
- K. R. N. Moorthy:** In the case of DMF, what happens is that you only file the DMF; we have already filed 27 DMFs. When somebody actions on our DMF, then they get figured. Out of 27, we are already exporting about 17 of them.
- Sukhwinder:** Okay. And rest are pending for approval.
- K. R. N. Moorthy:** It is pending for somebody to trigger the inspection.
- Sukhwinder:** Okay fine. Sure.
- K. Chandran:** We have about six in the pipeline for this year.
- Sukhwinder:** Okay fine. Thanks a lot.
- Moderator:** Our next question comes from Mr. Chirag of Citigroup.
- Chirag:** Good afternoon sir. Just wanted to know the nature of engagement that you have with Pfizer, as part of your CRAMS activity what is it, is it for one particular product, is this product under patent?
- K. R. N. Moorthy:** Actually we are having secrecy agreement with them, we can't give so many details, but we are manufacturing quite a few products for them. There are more products are coming also.
- Chirag:** Okay. So these are multiple products, multiple APIs. Is it safe to assume that all of these would be under patent?
- K. R. N. Moorthy:** They are all patented, and some could be intermediates also.
- Chirag:** Okay. And sir what is your outlook on this part of the business, most of the Pfizer relationship, your ability to grow this business, by virtue of already having a relationship with them.
- K. R. N. Moorthy:** We are eager to (inaudible) they have already made a pipeline for the next five years, what they want out of us, out of that some of the products are coming to us.

- Chirag:** Okay, sir any number that you can give in terms of how many products you are already manufacturing for them and how many do you envisage going forward?
- K. R. N. Moorthy:** We are already making about four products for them, and we are expecting every year we will add at least one or two products.
- Chirag:** Okay. Also sir there was some talks of JV for speciality generics in the US market, any update on that?
- Ashok Shinkar:** We are evaluating that product. There was a product which had come; basically it was a combination product, which was essentially where we were getting exclusivity in that market. So, presently we are evaluating that product.
- Chirag:** So, going forward what we can look forward to in terms of any update on this JV.
- Ashok Shinkar:** As of now, we are not yet factoring it in any of our guidance or numbers.
- K. Chandran:** It's quite early, I'd say.
- Ashok Shinkar:** Because, if it happens, it is a big windfall, but currently we are not factoring it in. If it turns out, it will be big.
- Chirag:** So, in terms of, I know you are not factoring it in, but if at all everything turns out as per your plans, when do you think this product can be launched?
- Ashok Shinkar:** It will be a little premature to state and discuss this. Its basically at an evaluation stage, I would just like to leave it at that.
- Chirag:** Okay sir. Thank you sir.
- Ashok Shinkar:** Thank you Chirag.
- Moderator:** Our next question comes from Mr. Sriram of Centrum Broking.
- Sriram:** Yes, I just wanted to understand what would be the impact on consolidated balance sheet consequent to this Cantabria and DOCL merger?
- Ashok Shinkar:** Can you tell it again?
- Sriram:** Yes, just wanted to understand what would be the impact on consolidated balance sheet consequent to this Cantabria and DOCL merger, in terms of gross block and foreign capital.
- Ashok Shinkar:** See, we basically have about 40 million of brands that would get capitalized.
- Sriram:** Euro 40 million?
- Ashok Shinkar:** Euro 40 million of brands.

- Sriram:** From this Cantabria?
- Ashok Shinkar:** From Cantabria. And as against that it is predominantly a leverage buyout, so we will have debt standing on the other side. This will be the major impact beside the profitability.
- Sriram:** Okay. And what would be the amortization rate over the...just an idea?
- Ashok Shinkar:** In Spain, the laws are radically changing, they are also now re considering the whole policy on amortization. But presently, from a consolidation standpoint, they will stand as typical 10 year period.
- Sriram:** Okay. And what are the capacities you are looking for in the next two years?
- Ashok Shinkar:** Yes, as mentioned, we are looking at about a Rs. 100-120 Cr. in terms of total CAPEX for the next three years.
- Sriram:** Okay, and just what like, FY07 balance sheet, there was a loans on advances of about Rs. 88 Cr. as compared to Rs. 22 Cr. in FY06. So what does this difference exactly relate to?
- Ashok Shinkar:** We merged Doctors Organic Chemicals. So we basically had that as an investment for the 48% that we held in DOCL. But as of this date, we were clear it is merging as of 1st April of 2007. So we had to re classify it as an advance to set it off.
- Sriram:** Ok, so this will get normalized in this year.
- Ashok Shinkar:** Yes absolutely. It does not affect as it comes into our balance sheet.
- Sriram:** How much?
- Ashok Shinkar:** Around Rs. 48 Cr.
- Sriram:** Okay. And how many new products have been launched in current fiscal, in this half year in formulations business?
- K. R. N. Moorthy:** In formulation division, in 2006 and 2007, we launched around six products and further in 2008 we will launch about five products.
- Sriram:** How many?
- K. R. N. Moorthy:** Five.
- Sriram:** Okay. And the brands that you are having at Cantabria, like are there any time bound, or like sort of, these are just generic?
- K. R. N. Moorthy:** No, it is not time bound, it is a branded generic.

- Sriram:** It is a branded generic product right?
- K. R. N. Moorthy:** Yes.
- Sriram:** Okay. And what would be the strategy over there, to continue to buy new brands over there, or...
- K. Chandran:** We have a pipeline of products for the next year, which is already in place. And we are definitely looking at newer dossiers to be bought over there. And once our Bravo plant is UK MHRA approved, then we would have products going from India itself.
- Sriram:** Okay, by when can we expect this plant to get UK MHRA approval? Any time frame you can give?
- K. R. N. Moorthy:** It is around, in 2009.
- Sriram:** Okay. It was written in the papers when the Cantabria acquisition was made that the payment will be made over the period of next two years. So like in, about how much payment has already been made, if you can.
- Ashok Shinkar:** See, we have another Euro 10 million to be paid to them.
- Sriram:** Another Euro 10 million are remaining.
- Ashok Shinkar:** Yes. That is already tied up. Its part of the current debt position.
- Sriram:** Okay, thank you very much.
- K. R. N. Moorthy:** Thank you Sriram.
- Moderator:** Our next question comes from Mr. Rohan of Keynote Capital.
- Rohan:** Sir, actually I wanted to know, what is the global demand for this metformin product, and the growth rate?
- K. R. N. Moorthy:** Its around 30,000 tonnes, growing around 20%.
- Rohan:** Okay and how much in capacities are coming in, globally?
- K. R. N. Moorthy:** Major new capacities are coming only in India, and we are also increasing our capacity as we have said, mainly about another maybe 1000 tonnes may increase.
- Rohan:** How much?
- K. R. N. Moorthy:** About 1000 tonnes.
- Rohan:** Over next...
- K. R. N. Moorthy:** Next year.
- Rohan:** Next two years.

- K. R. N. Moorthy:** Yes.
- Rohan:** Okay thank you sir.
- K. R. N. Moorthy:** Thank you.
- Moderator:** Our next question comes from Mr. Manoj of MK shares. It seems there is no response sir. There are no further questions. Now I hand over the floor to Ms. Archana Bora for closing comments.
- Archana Bora:** Thanks Shirley and I will also like to thank the management for giving such detailed answers to all the analysts. Thank you all the analysts once again for being a part of this teleconference. I wish you a belated Happy Diwali and a great year ahead. Over to you sir.
- Ashok Shinkar:** We would like to thank once again all of you for participating. Thank you.
- K. R. N. Moorthy:** All the analysts thank you.
- K. Chandran:** Thank you madam.
- 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.