"Ranbaxy Laboratories Ltd Q2 CY-'13 Results Conference Call

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MODERATORS	**MR. ARUN SAWHNEY – CEO & MANAGING DIRECTOR, RANBAXY LABORATORIES LIMITED.** **MR. INDRAJIT BANERJEE – CFO & PRESIDENT, RANBAXY LABORATORIES LIMITED** **MR. UMANG KHURANA – HEAD, INVESTOR RELATIONS AND STRATEGIC DECISION SUPPORT, RANBAXY LABORATORIES LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Ranbaxy Laboratories Ltd Q2 CY-'13 Results Conference Call. As a reminder, all participants' lines will be in the listen-only mode, and there will an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Umang Khurana – Head, Investor Relations, Ranbaxy Laboratories Ltd. Thank you. And over to you Mr. Khurana.

Umang Khurana: Thank you, Inba. Hello everyone and welcome to the Ranbaxy post results conference call for the Q2 2013, i.e. the quarter April to June 2013. Earlier in the day the company issued a press release detailing the financial results for the quarter. The press release and the presentation that the management will now discuss will also be uploaded on the company website by the time we finish this call.

Today, on the call we have with us Mr. Arun Sawhney – CEO and Managing Director of Ranbaxy who will be the first speaker, he will discuss the highlights of the company's performance for the quarter. Mr. Indrajit Banerjee – CFO and President of Ranbaxy will be the next speaker, he will detail the financial performance of the company during the quarter. Post the presentation we will be happy to take your questions. We have budgeted an hour for the call. Over to you, Mr. Sawhney.

Arun Sawhney: Thank you, Umang. Good day everyone and thank you for joining us on the investor call to discuss Q2 2013 financial results of Ranbaxy. Sales during the quarter were Rs.26.3 billion. Decline in sale was primarily on account of large contribution to sales from exclusivity opportunities during the corresponding quarter last year. Sales excluding first-to-files and authorized generics grew by over 10% over the corresponding quarter last year. EBITDA margins in the quarter was 7% which is a further improvement over the preceding quarter. Focus on performance of key products and measures to control costs continued during the quarter. Branded sales including OTC were Rs.13.4 billion while Generic sales including API were Rs. 12.9 billion. Absorica, the novel drug launched by Ranbaxy returned strong growth with over 14% market share. Exclusivity period of Actos that is pioglitazone hydrochloride tablets authorized generic launched in Q3 2012, ended during the quarter. Since then the company has maintained 24% market share. During the quarter the company highlighted some of the major specific actions the company has taken in recent years to address certain conduct of the past and to ensure the safety and efficacy of all Ranbaxy products currently available in the global market. Relative to previous quarter developed markets have been impacted by absence of exclusivities as compared to the corresponding quarter previous year. The primary sales in India were impacted by pricing policy and slow growth of anti-infectives and trade challenges. Business performance in markets of Latam and Branded Africa market were strong with 34% and 10% growth respectively.

With another step towards best manufacturing practices, Ranbaxy performed benchmarking and review of raw material cost, solvent recoveries and capacities. During the quarter one ANDA was filed in the US market. With respect to greater than 30 product filings from Ohm and Mohali since 2009, the company believes it has Para-IV on eight of the filings with the brand sales of around $6 billion. The company continues to work on high valued differentiated product filing in the US.

Coming to the hybrid business model, the hybrid business model between Ranbaxy and Daiichi Sankyo continues in several markets including India, Romania, Africa, Thailand, Mexico and also continues to work on multiple aspects such as R&D, manufacturing, quality as well as other parts of the value chain of Pharmaceutical business.

With regards to other significant developments during the quarter, on the consent decree that the company signed with the US FDA in January 2012 progressed satisfactorily. 16 national level regulatory agencies inspected our various plants. On the financial side with respect to derivatives position the total leveraged position at the end of Q2 2013 was $860 million down from $960 million from the preceding quarter. On an average, $35 million worth of derivatives mature every month. The run rate is expected to contract further in the coming quarters. More on this would be delved on by Indrajit in the financial section. Net debt for the quarter was $727 million after making the payment towards DOJ settlement during the quarter.

Sales performance: sales for the quarter were Rs. 26.3 billion and sales excluding FTF and AGs grew by more that 10% while the overall sales was a decline of around 20% over the corresponding quarter previous year. In the corresponding quarter of previous year we had sales from exclusivities. Overall, sales grew in Branded and emerging market including Latam, Africa, Middle East and APAC.

I will now take you through region wise sales. Coming to North America, North America sales were Rs.8.5 billion which is 44% lower than the corresponding quarter which had a large contribution from first-to-files. USA business sales for the quarter was Rs. 7.7 billion, up from Rs. 5.9 billion on the preceding quarter due to high traction from Absorica. Market share of Absorica is currently around 14% as per IMF.

Coming to India, sales for India was Rs.5.4 billion during the quarter mainly impacted by slow growth in Anti-Infective segment and the pricing policy. For H1 2013 India sales grew by 6% to Rs.10.8 billion.

For Eastern Europe and CIS, Ranbaxy continues to witness growth and maintains leadership position in its represented markets in Romania and Russia. During the quarter sales in the region were Rs.3.2 billion, an improvement of 5% over the corresponding quarter on actual FOREX basis. Of this Romania sales for the quarter were Rs.1.5 billion. Russia sales for the same period were Rs.896 million led by 15% growth in Prescription sales.

Coming to Western Europe, sales in West Europe were around Rs.2 billion for the quarter even as macroeconomic indicators continue to be a challenge for the business environment in the region. Led by France, UK and Spain, sales in the region declined. The weak performance in the region was somewhat compensated by the company's performance in Germany which was helped by award of tenders in that market. Performance of the company in West Europe will depend not just on the tender wins but also winning a mix of more profitable tenders.

Now, I come to Asia Pacific and Latin America. The region had sales of around Rs. 2 billion for the quarter, a growth of around 13% over the corresponding quarter last year. Sales in APAC region including Sri Lanka was Rs.1.5 billion and LATAM around Rs.0.6 billion. Sales growth in the region has been led by product launches in Australia, high growth in Brazil and improvement in Thailand business.

The company received approval to set up a Greenfield manufacturing facility by the government of Malaysia. The new proposed manufacturing facility in Malaysia may be put in place to service the strong government market in Malaysia and also act as a hub in the ASEAN regions for Ranbaxy.

Moving on to Africa and Middle East, sales for Africa and Middle East region for the quarter were Rs.2.8 billion held by growth in Branded Generics. The Africa region is an important market for the company and we remain committed to our business on the African continent.

I now move on to API and others. Sales for our segment API and others were Rs.2.2 billion for the quarter. The company's strategy to focus on markets and molecules resulted into strong growth for the business. We are working towards consolidating our presence and markets and customer base. With this we will grow a sustainable profitable business for our API business. Indrajit will now take you through the financial performance for the quarter. Over to you Indrajit.

Indrajit Banerjee: Thank you, and good day to everyone. I will just take you through the salient highlights of the results. Sales for Q2 2013 were Rs.26,332 million which is a growth of over 10% of the base business over the corresponding quarter and this was aided primarily by the Branded business performance in the US, Africa, Romania and Russia. Sales for half year 2013 were Rs.50,730 million, sales were lower than the corresponding period primarily due to the first-to-file opportunities that were there in the corresponding period in the previous year. Other operating income was Rs.502 million in the quarter compared to Rs.544 million in the corresponding quarter of the previous year. Some of the impact on the other operating income was due to the completion of the non-compete fees which were there in the corresponding quarter and half year; however, which were discontinued from the second half of 2012.

Material consumption was lower at Rs.9,321 million in Q2 2013 versus Rs.10,237 million in Q2 2012 and Rs.18,300 million in half year 2013 versus Rs.18,682 million in half year 2012. Aided by a better product mix and Forex excluding the FTF impact material consumption as a percentage of sale was at about 35% which is a significant improvement over the corresponding quarter of the previous year. Employee costs were at Rs.5,131 million in the quarter against Rs.4,879 million in the corresponding quarter of the previous year. The approximate 5% increase in salary for Q2 and H1 2013 is on account of higher number of marketing and quality-related personnel and normal salary revision.

Other expenses amounted to Rs.9,595 million in the quarter and Rs.18,831 million for the half year 2013 which when compared to the percentage of sale was about 36% for the quarter and in the half year 2013. The higher other expenses include the higher CD remediation-related expenses incurred during the quarter and in the half year. As mentioned earlier this expense is expected to continue till most of calendar year 2014 and thereafter it is expected to start tapering off as the implementation of the consent decree progresses further.

Other income was lower at Rs.354 million in the quarter Vs Rs.697 million in the corresponding quarter of the previous year mainly on account of lower interest income on deposits. These deposits have been utilized for the payment of the liability in US. For the same reason interest and other income for the half year 2013 was down from Rs.1,304 million to Rs.978 million in the corresponding period previous year. As you know the DoJ liability was paid in May and June in this year which falls within the purview of the reported quarter now.

Depreciation, amortization and impairment for the quarter and half year 2013 were broadly consistent with the earlier quarters. Finance cost for the quarter was consistent with the corresponding quarter; however, finance cost for H1 2013 was higher at Rs.2,117 million Vs Rs.1835 million in the corresponding H1 of the previous year mainly on account of increase in debt as also because of the part of the Forex loss of Rs.1,117 million apportion to financing cost in accordance with the accounting standards being followed.

Exchange rate of Rs.59.31paise has been taken as on 30th June Vs 54.31 taken as at 31st March 2013 and Vs 54.76 which was taken at the end of December 2012. There is a foreign exchange loss of Rs.3,671 million that is shown below the EBITDA line under the exceptional items which is mainly the impact of foreign exchange on the derivatives outstanding of Rs.860 million as Arun had mentioned earlier. There is also a Forex loss of Rs.628 million in the current quarter and Rs.985 million for the half year recorded above the EBITDA line mainly due to trade transactions while the overall currency weakened Forex loss is on account of the loss on the trade impact for the quarter, and the impact of foreign exchange has been recorded in three places in the accounts as you would note

Tax for the current quarter and for the half year mainly represents the tax paid by our US, Romania, Russia and South African entities which recorded profits in their legal entities during the quarter. And that is why we have the situation where we have a tax appearing in the consolidated accounts although there is an overall loss before tax at the before tax level. Exceptional items during the quarter also included impairment of goodwill of Rs.1,192 million as an exceptional item according to the accounting standard. Now this relates to our subsidiary in France where the company has decided to write-off the goodwill in view of not very favorable financial situation of that legal entity in France. EBITDA for the quarter was in the net Rs.1,996 million for the quarter and Rs.3,545 million for the half year aided essentially by improvement in margins and improvement in the cost-ratio to sale. Now while explaining EBITDA I must also mention that, the number as I just now mentioned, represents about 8% of sales, there is a significant improvement in the EBITDA margin relative to the previous quarter by over 1.5 percentage points and this is a result of as I said better margins and lower costs and also to some extent aided by the better exchange rate that we have got on our sales. As I said we continue to incur expenses on CD and that has remained in the current quarter. And incidentally we have also got a Forex loss of Rs.628 million on a pre-EBITDA line so this number that I just mentioned about 8 percentage point that is after considering the Forex loss on the quarter. So with that I hand it back to Umang.

Umang Khurana: Yes, thank you Mr. Sawhney, thank you Mr. Banerjee. We will now open the floor for questions. So as we get along I think Anmol is first on the queue and we will get along with questions from here. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen we will now begin the question-and-answer session. Our first question is from Anmol Ganju of Antique Capital. Please go ahead.

Anmol Ganju: In your opening remarks you mentioned about trade challenges. Would you like to elaborate on this, are they related specifically to Ranbaxy and some of the bad press that we have received or it is consistent with the general environment?

Arun Sawhney: That was a comment I made in relation to the India business and in India business we have this NLEM come in, and Ranbaxy wanted to comply to all the regulations and the requirements of NLEM, so we had withheld shipments of primary sales to the market so that we remain compliant with new prices mentioned on our pack beyond the 45-days' notice period notification. So that impacted the sales during the quarter. So my reference to the trade challenges were in relation to that.

Anmol Ganju: Which should reverse in the subsequent quarters?

Arun Sawhney: Yeah which should reverse, you are right.

Anmol Ganju: Second was related to the comment Indrajit made with respect to remediation cost. CY-'14 we expect them to kind of taper off but just by the way of quantification, do you expect other expenses to halve, what are the expenses which will stay with us or what is going to be the magnitude of decline of these expenses and how does that impact EBITDA going forward more from 18-month kind of view?

Indrajit Banerjee: The comment there would be that we are today at quite a peak of the expenses being incurred on that particular item and as we go forward we would expect that at every half year time-to-time periods I think we should be gradually moving down in terms of the expense level, so it would gradually taper off but we are today at a pretty much the peak of expenses I think it's fair to say that.

Arun Sawhney: But I would like to add to that in spite of that in the half year tranches we have shown improvements and we assure that in half yearly tranches these improvements will be seen going ahead even on our base business so that by end of our plan period we are in as healthy as best-in-class company in Generic Pharmaceutical business. We still maintain that, we will show, keep on showing improvements. And even in the Q2 there is a significant improvement in the profitability of our base business if you remove exceptional expenditure.

Anmol Ganju: Last question before I get back into the queue, some of our API facilities which are supposed to service big exclusive opportunities in the US, Diovan, Nexium they have been having hurdles at the GMP level, you have consistently managed that all these big opportunities will be salvaged. So what would our 'Plan-B' be for salvaging these opportunities in case the regulatory resolution of some of these facilities are not up to the mark?

Arun Sawhney: We are confident that we will stick to 'Plan-A' at the moment. So I do not think there is need to discuss 'Plan-B' right now.

Moderator: Thank you very much. We will take our next question from Anubhav Aggarwal of Credit Suisse. Please go ahead.

Anubhav Aggarwal: Mr. Sawhney, one question on Absorica. Cipher recently made a comment that most of the existing sales of Absorica are from cash customers and from private plan customers. Just had a couple of questions regarding the statement that what tier is Absorica on the formulary list in the US given its high pricing that is question one? And second in the Absorica market, what percentage of the customers are cash customers and private plan customers?

Arun Sawhney: I think we should give Absorica sometime before we start making serious analysis on the current customer segmentation. At the moment we are very happy that at least as reflected in IMS Absorica market share has consistently improved month-on-month quarter-on-quarter and is now hovering around 14% but on the segmentation of the market… it is a branded business after all, let us give Absorica at least a year before we start dissecting it in all kinds of analysis.

Anubhav Aggarwal: Right, you have done a wonderful job with Absorica, I was just trying to assess, like we are at 15% market share today, and I do not today have a sense whether we can go to 50, we can go to 80 or we will be limited to 20% so I was just trying to get some idea. If nothing else can you just mention what tier is Absorica on formulary list, is it on tier 3?

Arun Sawhney: I would not know that off the cuff, but I will be happy to have that clarified to you later on offline by Umang.

Anubhav Aggarwal: Sure, one question to Mr. Banerjee, this quarter gross margins certainly would have benefited from the translation gains on the inventory which are lying in foreign subs because of the given sharp depreciation in the INR. Could you quantify the numbers.

Indrajit Banerjee: We have reported that number 622 that is the net of everything which includes the current assets, which includes the current liabilities, which also included the $500 million liability that we carried for a while, etc. I would not be in a position and nor we would give details of what we have gained on an inventory account but the numbers that we have reported that is the net result of all the items which have been translated according to the accounting standards. I guess that is the number that we can report right now.

Moderator: Thank you. We will take our next question from Girish Bakhru of HSBC. Please go ahead.

Girish Bakhru: First was on the guidance of Rs.120 billion given that you have done about 50-odd in the first half and possible delay in Diovan going to what Sandoz or Novartis has been saying, would you at this point change your guidance?

Arun Sawhney: At the moment no, we will at the moment maintain our guidance.

Girish Bakhru: But just to elaborate on that your guidance featured largely full Diovan in this year, right?

Arun Sawhney: At the moment like I said we would not change the guidance. We will take stock of situation again in the next call in the next quarter.

Girish Bakhru: Second on the US side if we look from the quarter-on-quarter perspective there has been significant jump, is it largely Absorica or are there other products like Evoxac which are contributing meaningfully because jump is close to around $30 million if my estimates are right?

Arun Sawhney: Partly both. Absorica definitely has done much better than our plan, and secondly also the base business in US is growing pretty healthy, so you can say partly both. In effect the whole of Q2 would be a reflection of US base business for Ranbaxy now more or less. So the base business as well as Absorica both are growing pretty well for us in the year.

Girish Bakhru: This number one should consider as a base and there would be incremental growth going forward on this number, right?

Arun Sawhney: One should expect that.

Girish Bakhru Just on the future outlook beyond say the big ticket products, Valcyte, Nexium and Diovan, if you can give some idea on what kind of therapeutic segment, be it oral contraceptives that you have some filings and where would you say Ranbaxy will be launching more products in the US?

Arun Sawhney: We have maintained that we will continue to pursue development of differentiated products or products with limited competition and our first-to-file filings. Of the first-to-file filings that we have done since 2009, cumulative brand value of around $6 billion has been managed. We will continue to make product filings in differentiated and limited competition segments, OC is one such. On the branded side, our focus will remain primarily on Derma. So you should see filings of differentiated products also on the Derma segment in times to come. But this would be the built up of the US business for future portfolio.

Moderator We will take our next question from Krishna Prasad of Kotak Securities. Please go ahead.

Krishna Prasad My first question is just on the commentary around Derma filings that you were talking about. Are there plans on the creams and ointments on the topical side or are they limited to just oral solids for the dermatology market.

Arun Sawhney: No, we have other delivery systems already in our portfolio, we have oral solids and we would be exploring all kinds of differentiated product. Delivery system could be any.

Krishna Prasad Sure, but have you made filings on these or…

Arun Sawhney: We have already, but we have on market few products.

Krishna Prasad Are we awaiting approvals for more such products?

Arun Sawhney: Yes, we would be filing, continue to file differentiated products on delivery platforms including and other than oral solids

Krishna Prasad My second question is around the commentary that you made around cost rationalization and benchmarking exercise which have happened. If you could talk a little bit around what is being done so far and how that will sort of impact numbers over the next maybe one or two years and just quickly an additional question would be can we expect this level of gross margin that we see in the current quarter, is this sustainable or is there anything sort of one-off which may not be there in the coming quarters?

Arun Sawhney: I think we have maintained earlier also that in half yearly tranches, we will see improvement in profitability of the company and that could be for multiple reasons. So you have backend efficiency of operations, we will have portfolio corrections going ahead, etc., so yes, the gross contributions have to improve over the planned period, only then we will be able to become a company which is amongst the healthiest companies by the end of our planned period on profitability. So the short answer is yes, we should see maintenance and in certain cases also improvement in certain segments.

Indrajit Banerjee If I may just add one point to this which is that if you look at the last quarter, the improvement in profitability has essentially come from greater efficiencies in manufacturing which has led to higher sales and higher production and if you look at the expenses all the expense line items in relation to sales has improved. As I mentioned earlier, between the two quarters there has been nearly more than 1.5% on the EBITDA margin as reported and if you were to ignore that foreign exchange items which is there in the accounts, then the corresponding number is like 7.1 going up to 9.8% ignoring that foreign exchange number, so which is a healthy improvement. As of now I do not think there is any abnormality in the margins to report. So, one would think that these are pretty normal margins that have emerged from the operations in the last quarter.

Moderator Thank you. Our next question is from Prakash Agarwal of CIMB. Please go ahead.

Prakash Agarwal On the France side where you have taken the write off, are there any other Western European, Eastern European countries where you could see similar stuff going forward?

Indrajit Banerjee The answer is no. At this stage France was an issue and therefore we have taken a write down of the goodwill amount that is appearing with regard to our investment in France. As of now, we have no reason to believe that we have to take any write off anywhere.

Prakash Agarwal And in Russia, normally we used to have a very high growth at least high double digit growth, any specific reason for some slow down in the growth?

Arun Sawhney: Russia, we have to see the representative market for the molecules that we have. In the representative market we are growing faster than the market.

Prakash Agarwal But the market as a whole has slowed down. So are you seeing the market seeing some regulatory challenges, can you elaborate on that?

Arun Sawhney: Russia is I think is facing a lot of regulatory challenges for the generic companies. But that is not peculiar to only Ranbaxy. I guess, a lot of other generic companies would be facing the same challenges whether it is filing, the regulatory requirements of the filings, approval times, clinical trials, toxicity studies, I think all of this would be not peculiar to only Ranbaxy. But for us in the segment that we are operating in, we are growing much better and healthily better than the represented market growth.

Prakash Agarwal And US revenues in dollar number would be $137 million?

Arun Sawhney: I think we can have that sent to you later on.

Prakash Agarwal Last two questions on Pristiq, any particular reason the traction has been slower?

Arun Sawhney: It is a 505(b)(2), It is a promoted product. It is slower than what we had originally projected, but let us give it another quarter before we can make any further comments on it. Your observation is right; it is slower than what we had planned originally.

Prakash Agarwal Last question on Diovan and Valcyte, so we stick to our launch this year or?

Arun Sawhney: At the moment we are not changing the guidance for the year. I think I will limit my comment to that.

Moderator Our next question is from Vivek Agarwal of MP Advisors. Please go ahead.

Vivek Agarwal I have some questions on your debt. Can you comment on how much of the debt is denominated into the foreign currency and what is the repayment schedule in '14 and '15?

Indrajit Banerjee We have got a mix of both; dollar and rupee and it will be unfair for me to just say how much is dollar and how much is rupee because we also have our own ways of trying to match the…

Vivek Agarwal How much in the dollar?

Indrajit Banerjee I will not be in a position to give you the exact dollar amount right now. I can have that number, given to you, but it is a mix of dollar and rupee, and it is roughly about 60% dollar and 40% rupee that would be the general mix, I do not have the exact number with me right now. Repayment schedule, it is a mix of… we have (PCFC) Post-Shipment Credit in Foreign Currency which is repaid every 30 days and 90 days depending upon the exports that happened and we have got some long term external commercial borrowings. But most of our debt other than PCFC is into long term debt, so decided to repayment in the next one and a half years so to say. Actually our last reported annual results will have all the details of the outstanding debt with all the narratives relating to repayment.

Vivek Agarwal What is your average cost of debt?

Indrajit Banerjee That is a difficult one to answer in one sentence because it is a mix of rupee and dollar and some hedged some not hedged so that would be a difficult one to say. But you can actually make out. There is an interest cost number which is there in our declared results and Arun mentioned earlier what our net debt position is, so you can sort of relate the two and get a sense of that number.

Moderator Thank you. Our next question is from Ranjit Kapadia of Centrum Broking. Please go ahead.

Ranjit Kapadia My question relates to marketing and quality control personnel which you have increased during the quarter, if you can quantify that? And my second question relates to the domestic market. We had a project Viraat, do you see the revival of this project Viraat in the domestic market with the new NLEM coming into place?

Arun Sawhney To your first question on increase in quality and marketing, of course, there would be increase/ decrease in people working in different departments based on the scale and size of the operations in different parts of the world. So that would always have a bearing on what is our business progressing like in different parts of the world. Now coming to Viraat, Viraat I mentioned in one of our earlier calls is an initiative that was over last year. Viraat helped Ranbaxy in penetrating into smaller towns in different markets, geographies within India. Viraat had a certain purpose and it lived its purpose. Today, we would be focusing on not increasing field force spreading wide but today our focus would now be on improving productivity. So the Viraat as it was originally conceived ended last year.

Ranjit Kapadia Can you quantify the current field force in domestic market?

Arun Sawhney I do not have the exact number, but it should be well over 4000 people in the domestic market.

Ranjit Kapadia What you have mentioned in the marketing and quality control personnel increase only relates to India or it relates to the entire global operations?

Arun Sawhney No, I did not mention, you mention because I did not know where you have got this news from. The increase or decrease wherever you would have seen is always in case of Ranbaxy related to the scale of operations in a particular geography or a country. So I would then put the question back to you as to what were you referring to when you were asking that question. Was it limited to India? Was it overall in the company? Where did you get that information from?

Ranjit Kapadia But they have increased the quality control and marketing personnel?

Arun Sawhney Where did the information come from?

Ranjit Kapadia Today's presentation.

Umang Khurana I can take this up separately with you.

Moderator Our next question is from Nitin Agarwal of IDFC Securities. Please go ahead.

Nitin Agarwal Mr. Banerjee, on SG&A cost, what is your thought process in terms of the increase in these costs, year on year while this cost seem to be increasing at a fairly rapid clip, do we see a moderation coming in and what is going to drive that?

Indrajit Banerjee You are talking about the other expenses? The other expenses as I mentioned it is 36%. Let me put it this way, there is an element of promotion and other expenses which is there, and there is also the CD expenses. Now CD expenses as I mentioned, we are pretty much at the peak right now and over the next year as we have said in 2014 and thereabout, it will sort of taper off. And so far the other expenses are concerned, if you were to relate it to the sale, you will find that between the previous quarter and this quarter there is not much relative to sales, there is not much of a movement and the company's effort would be to overtime as volumes rise we would get the benefit of greater efficiency in the system and you see this number as a percentage of sales coming down..

Nitin Agarwal: I understand the CD part last time, I think on the call also you mentioned about 1%, 1.5%, even if you adjust for that the other expenses are relatively high compared to most of your peer group. So when do you see this inflexion point barring the CD expenses really if you ignore that, you said that is going to start coming down from next year onwards, but beyond that are there any efforts which are underway to bring down the percentage of other expenses other than the CD expenses?

Indrajit Banerjee: If you look at this way, from the operations as a company, there is a significant amount of fixed expenses which is embedded in our cost structure and if you were to assume that there is a significant amount of spare capacity in our various manufacturing facilities which are today less than optimally utilized and as we launch new products and as we introduce new products and as we get these approvals from the facilities that we already have then you find the benefit of that very quickly coming to the bottom line because of this fixed cost nature of the business and fixed cost is there in every respect of our business, right, I mean, whether it is manufacturing side or it is in the marketing or it is in the R&D. Arun talked about the various products that have been filed from Mohali and Ohm, and as we see these products being launched and not only for the US markets but for the various other markets, for the India market where our growth has been relatively slow in the last quarter. As you see these markets selling more, our manufacturing facilities producing more, our R&D filing more products and getting approvals for these products, then you will be in a position to see very quick rapid improvement in this particular item relative to sales that would come. I think that is a general answer, but that is the reality of the business.

Nitin Agarwal Sorry to push a point, but do you see any scope for absolute reduction in some of these costs heads in the system or that is not possible given the way things are?

Indrajit Banerjee: No, there is an effort in optimizing costs, but the bigger benefit will come from volumes. You are aware that we have got Mohali from which we are not selling much today. We have got other manufacturing facilities which are producing at a far less capacity than what it is capable of producing. So the greater benefit will come from these volume increases and new product launches and that is where you see a much quicker, rapid, and significant impact coming to reducing this element of cost as a percentage of total cost.

Nitin Agarwal Just to add to that, Mr. Sawhney we have not got, if I remember correctly, any ANDA approvals since the Atorva approval came through for us, almost about a couple of years back, the Mohali and Ohm facilities are not really part of the whole Consent Decree procedure. So what would be holding back approval given that we have made a bunch of filings from those assets?

Arun Sawhney: I think we should just give it some time. It is a question of time that is taken. I am sure sooner or later all the approvals will start coming in.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala of Morgan Stanley. Please go ahead.

Sameer Baisiwala: A quick question, what triggered the payment to DOJ during this quarter? Was there a milestone that was crossed?

Arun Sawhney: No, I think it is a question of reaching the settlement; settlement was reached and the payment was made, as simple as that.

Sameer Baisiwala: Would that have any bearing with the ongoing CD exercise with the FDA?

Arun Sawhney: These are two independent things, one was DOJ, and the other agency was FDA. With FDA we have signed the consent decree, we will go through the entire consent decree process with the FDA. With DOJ we are settled, I think we are overwhelmed now.

Sameer Baisiwala: And second, if you could confirm, if I am not wrong, Valcyte was meant to be a September launch after there was peadiatric exclusivities so March was shifted to September, is that something that is going to happen?

Arun Sawhney: I do not remember the exact date but you are right, it is in 2013 only.

Sameer Baisiwala: And just one quick question on the total employee count for the company. What was it say six months back and what is it right now? Has there been a major increase or decrease in the total employee count now and six months back?

Arun Sawhney: When you say major, I would say at least 10% increase or 10% decrease, I would not say that.

Sameer Baisiwala: If you think about the top 10% in terms of seniority?

Arun Sawhney: I know what you are driving at. Even the answer to that would be no for the timebeing. We would not have made large scale retrenchment or large scale hiring aggressively or anything of that sort. There would be exercises that would all the time go on in any company to see what is the right size of the organization structure that a company should carry, that we have done. And yes, we have taken certain measures there, that is true. But it would not be large scale. I would not characterize that as large scale.

Moderator: Thank you, the next question is from Manoj Garg of Merrill Lynch. Please go ahead.

Manoj Garg: Mr. Sawhney like you have indicated that domestic growth has got impacted a) because of lower season of Anti-Infective and second is because of the trade disturbance. How do you see the growth going forward for the balance six months and maybe over the next 1 or 2 years in the domestic market?

Arun Sawhney: I think quarter-on-quarter we should see an improvement in our performance on the Indian market.

Manoj Garg: So we expect a double-digit kind of growth in the domestic market?

Arun Sawhney: I think we should. I have always maintained that we must measure the improvements that we are making on half yearly tranche because that makes more sense. Yes, we should see improvements in our India business going ahead.

Manoj Garg: And second question is on Desvenlafaxine, where one of the other guys has also got 505(b)(2) kind of an approval for the similar kind of product. A) Though the ramp up as you rightly said is slower than our expectations and do you also think that probably the other approval will also have the overall impact in terms of our market projection and maybe the plan which we have made for the product?

Arun Sawhney: I think we have our own plan of business which has been slower in its offtake than we had originally projected, but I think we will stick to our plan.

Moderator: Thank you. The next question is from Saion Mukherjee of Nomura. Please go ahead.

Saion Mukherjee: My first question is regarding Absorica. You have seen a very significant traction. It looks like it is around $20, 25 million quarterly run rate already. What is the kind of peak revenues if you can share you are expecting and by when you think you should be able to reach that?

Arun Sawhney: I hope we continue growing and never reach the peak, but we have not yet determined that, we have not gone public.

Saion Mukherjee: But how long will it take to fully scale up this product?

Arun Sawhney: In case of Absorica I mentioned earlier, it is a branded product; it is not a vanilla generic, let us give Absorica a year before we start making significant comments on it. Wait till this year end and then I think we will make all kinds of comments and analysis on Absorica.

Saion Mukherjee: And my second question is related to the currency movement and its impact at the EBITDA level. You have a lot of cost in foreign currency and a lot of revenues there. Because this quarter for instance your realization would be much higher than what it was in the previous quarter. So if you can give us how much is the impact that you see at the EBITDA level because of the currency movement assuming that if let us say rupee were around 60, 61?

Indrajit Banerjee: It is roughly, I am taking a guess here, that if the dollar were to move by Re.1, I think we would have somewhere like 60% of that as a gain on the gross margin line and about 40% on the EBITDA line, somewhere on that line I am just hazarding a guess here but I think it will not be too far from the reality.

Saion Mukherjee: And finally on India business have you computed the impact of the NLEM given that we have got some price notifications already, some ball park number in terms of what the impact for Ranbaxy's portfolio is likely to be?

Arun Sawhney: Yeah, earlier it was estimated to be around 9%, it should be in the vicinity of 8% of sales.

Moderator: Next question is from Chirag Dagli of HDFC Mutual Fund. Please go ahead.

Chirag Dagli: I have 2 questions on the US business; first is you disclosed that you have about 30 filings from Mohali and Ohm, and of which 8 are Para-IV, the other 22 can you give us some color on what these kinds are? Intuitively we would think that most of these would be differentiated filings but if you could give us some color or probably put them in buckets of how many overseas, how many control substances if at all?

Arun Sawhney: We have as a policy not disclosed the buckets of the therapeutic categories and the filings. Like I mentioned quite a number of them should be products with limited competition.

Chirag Dagli: So, quite a number meaning more than 75% should be of the differentiated competition kind of products?

Arun Sawhney: I would say interesting number. I am not giving percentages or number.

Chirag Dagli: Given that it has been 4 years now that some of these products could have been filed. Is there any reason for you to believe, except for the usual delay with the FDA, is there any other reason which is sort of delaying these product approvals?

Arun Sawhney: I would not say that there is any unusual reason for delay. We are experiencing general delay that is held across the industry not specifically to Ranbaxy.

Chirag Dagli: So there is no Ranbaxy specific issue which is sort of delaying these approvals?

Arun Sawhney: No.

Chirag Dagli: And second question was on the partnership product for the US market we have had Absorica and Pristiq. But can we expect more such products? How many if there are if any? These 30 are our own products but even partnerships to my mind are turning out to be fairly profitable for us. So if you could give us some sense of what to expect out of this particular aspect of the US business for Ranbaxy.

Arun Sawhney: No, we would be. We started this journey a couple of years ago and going ahead we would be looking at increased number of alliances to get us products which we are not developing in-house but are of interest to our business in various geographies. So alliancing would be an integral part of Ranbaxy strategy going ahead. We should see more filings also from alliancing besides more filings coming from in-house developed products.

Moderator: Ladies and gentlemen due to time constraints that was our last question. I would now like to hand the conference back to Mr. Umang Khurana for closing comments.

Umang Khurana: Thank you everyone for coming in. Hitesh, Kartik, Rahul, Bhagwan, Prakash and Praful, sorry, we could not take your questions and happy to address your questions separately. Thank you Mr. Sawhney, thank you Mr. Banerjee and we will connect again soon. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Ranbaxy Laboratories Limited that concludes this conference. Thank you for joining us and now you may disconnect your lines.