



“Ranbaxy Laboratories Limited Q1FY15 Earnings
Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Ranbaxy Laboratories Limited Q1FY15 earnings conference call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. 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 – Investor Relations at Ranbaxy Laboratories Limited. Thank you and over to you sir.

Umang Khurana: Thank you Shyma. Hello, everyone and welcome to the Ranbaxy post results conference call for the quarter one financial year 2015. Earlier in the day, the company issued a press release detailing the financial results for the quarter ended June 2014. The press release and the presentation that the management will discuss with you now, will be uploaded on the company website for your reference. On the call with us today, we have Mr. Arun Sawhney – CEO & Managing Director of Ranbaxy, he will be the first speaker who will discuss the highlights of the company performance for the quarter, Mr. Indrajit Banerjee – CFO and President at Ranbaxy who will be the next speaker. He will detail the financial performance of the company. Post the presentation, we will be happy to take your questions. We have budgeted an hour for the call today. 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 quarter one FY 2015 financial results of Ranbaxy.

Sales during the quarter were Rs. 23.7 billion. Sales during the quarter were impacted by the voluntary suspension of API shipment from the company's Dewas and Toansa API facilities. This voluntary decision was taken as a precautionary measure and out of abundant caution. Since then, Ranbaxy has selectively resumed supplies from Toansa and Dewas to some of the markets. Despite the manufacturing and related concerns in the quarter, EBITDA margins for the quarter were at 10% of sales.

With regards to other significant developments during the quarter: During the quarter, the company received first-to-file approvals to manufacture and market generic version of Diovan tablet on 27th June 2014 and launched the product thereafter with 180-day marketing exclusivity in the USA. Valsartan is indicated for the treatment of high blood pressure and heart failure. On the financial side with respect to derivatives position, the total leveraged position at the end of the quarter was \$470 million down from \$568 million from the preceding quarter. On an average, \$33 million worth of derivatives mature every month. The run rate is expected to contract further in the coming quarters.

Coming to the sales performance by region: For the total company, the sales for the quarter were Rs. 23.7 billion led by API supply concerns. Business performance was relatively weaker in North America, APAC and LATAM, Africa and Middle East. Sales in India and CIS region were stronger.

I will now go through region wise sales. First, I will begin with North America. North American sales were Rs. 7.6 billion, a decline of 11% over the corresponding quarter previous year. Lower sales are due to further price reductions in Canada and due to lower market share of Amlodipine and Atorvastatin for which we were authorized generic last year. The USA business sales for the quarter were Rs. 7 billion. Absorica continued to perform better than expectation. Market share of Absorica is currently around 20% as per IMS end of June 2014.

Coming to India, sales for India were Rs. 6 billion during the quarter. The Indian pharmaceutical markets stabilized after the impact of pricing policy and relative trade challenges towards the end of 2013. The government has subsequently made further reductions in price of around 50 drugs, 108 formulations which brings 21% of anti-diabetic and 57% of CVS under price control. For Ranbaxy, the incremental impact would be in the vicinity of 1.2% to 1.5% of overall India region sales. Ranbaxy sales in the country recovered and is current growing at the rate of 12% this quarter compared to corresponding period of the previous year.

Going on to East Europe and CIS, Ranbaxy continues to maintain leadership position in its represented markets of Romania and Russia. The sales in the region were in line with corresponding quarter previous year. During the quarter, sales in the region were Rs. 3.4 billion. Of this, Romania sales for the quarter were Rs. 1.7 billion affected by stagnant market growth in Romania, high discounts, and claw back. Sales in Russia were Rs. 1 billion driven by higher prices and ARV sales. Sales in Ukraine were in line with the corresponding quarter previous year despite the civil unrest in the Crimean region which had led to a steady devaluation of Ukraine's hryvnia against the dollar, approximately 45% devaluation since January 2014.

Going on to West Europe, sales in West Europe were Rs. 2.4 billion for the quarter on the back of better sales in United Kingdom through the monetization of market opportunities and strong tender wins. The company is focused on its profitability in the region. Sales in other key markets of Europe like Germany, Italy and Spain were also better than expected during the quarter.

Going on to APAC and LATAM including Japan and China, the region had sales of Rs. 1.6 billion for the quarter. Excluding Thailand, APAC was mainly affected by Malaysian sales which declined over a corresponding quarter due to loss of government tender sales during the quarter. Supply concerns including API from Toansa adversely impacted sales in Brazil which is our largest market in LATAM region. The sales in Japan and China were 50 million for the quarter with all sales coming from China.

Moving on to Africa and Middle East, sales for this region for the quarter were Rs. 2.2 billion, impacted by reduced tender quantities in African countries of ARV products. The company continues to invest in manufacturing in the region and we should see some Greenfield sites coming on stream in the near future in Nigeria and also in Egypt. Sales for API and others were Rs. 466 million for the quarter, impacted as a result of voluntary suspension of shipment

from Dewas and Toansa. Indrajit will now take you through the financial performance for the quarter. Over to you Indrajit.

Indrajit Banerjee:

Thank you Arun. Good day to everyone on the call. I will take you through the salient highlights of the results. Sales for the quarter ended June 2014 as mentioned earlier was Rs. 23.7 billion compared with Rs. 25.8 billion in the corresponding quarter ending June 2013. As mentioned by Mr. Sawhney, sales in the quarter were impacted by the voluntary suspension of the API shipment from the company's Dewas and Toansa API facilities. Other operating income was Rs. 540 million in the quarter versus 502 million during the corresponding quarter of the previous year. Material consumption was Rs. 8.7 billion in the quarter ending June 2014. Employee costs were Rs. 5,286 million in the quarter against Rs. 5.13 billion in the corresponding quarter of the previous year. Depreciation, amortization, and impairment for the quarter were higher at Rs. 1,074 million versus 763 million in the corresponding quarter due to reclassification as per schedule II of the Companies Act 2013. Other operating expenses amounted to Rs. 8 billion in the quarter as compared to Rs. 9.3 billion in the corresponding quarter of June 2013. This is decreased as a percentage of sales over the preceding quarters due to the control of expenses and reductions in certain spends due to remediation expenses. The quarter EBITDA was 10% of sales as compared to 6.1% in the previous quarter ended March 2014. EBITDA for the quarter was recorded at Rs. 2,379 million.

Interest and other income was lower at Rs. 255 million in the quarter versus 354 million in the corresponding quarter of the previous year mainly on account of interest income on a lower level of deposits that was carried during the current quarter as certain payouts have made in the previous year. Finance cost for the quarter was lower at Rs. 1424 million versus 1592 million in the corresponding quarter of the previous year mainly because of lower exchange loss. Forex loss as you know is apportioned to financing cost in accordance to the accounting standards. Profit from ordinary activity after finance cost but before exceptional was Rs. 125 million in the quarter. The closing dollar rupee exchange rate was 60.08 as on 30th June 2014 versus 59.31 as on 30th June 2013. It was 59.76 as on 31st March 2014. The average dollar rupee exchange rate for the quarter was 59.80 versus 55.86 in the quarter ended June 30th in the previous year and it was 61.76 that is higher than the 59.80 for the current quarter. It was 61.76 in the preceding quarter ended March 2014. Net foreign exchange gain and option derivative other than loans is Rs. 317 million in the current quarter and is shown below the EBITDA line under exceptional items. The company recorded a net loss before tax of Rs. 1,925 million after providing for certain exceptional items that we have provided for in the current quarter mainly on account of a settlement provision that we have made for Rs. 2,377 million in relation to certain settlements done with the government authorities in the US. The same has been shown as an exceptional item in the current quarter. Tax for the quarter ended June 2014 represents mainly tax paid on our profitable entities in US, Romania and certain other countries outside India, but there is creation of deferred tax asset in the USA according to the accounting rules which result in net tax benefit of Rs.56 million in the current quarter. So that is the summary. With that, I hand it back to Umang.

- Umang Khurana:** Thank you sir. We will open the floor for questions and we understand that not all the participants are able to view the presentation. For that purpose, we have forwarded the presentation to your e-mail IDs. You should be able to view it as we go. Happy to take your questions now.
- Moderator:** Thank you. Participants, we will now begin with the question and answer session. We have the first question from the line of Sonal Gupta from UBS. Please go ahead.
- Sonal Gupta:** Sir couple of questions. One is on Diovan, would you have recognized remaining portion of sales in this quarter or because it came at the fag end, there was nothing much recognized on Diovan.
- Arun Sawhney:** The Diovan sales are not recognized from the previous quarter.
- Sonal Gupta:** And just on this settlement provision. Could you throw some light on this thing, exactly what is this pertaining to?
- Indrajit Banerjee:** The settlement provision pertains to a settlement which is being made with the government authorities in US. We are not disclosing the details of this as of now. What we can disclose, we have actually stated it in the quarterly results and it is a provision being made. As and when the settlement is fully done, we would be in a position to disclose more about the settlement when it is completed.
- Moderator:** Thank you. Our next question is from the line of Girish Bhakru from HSBC. Please go ahead.
- Girish Bhakru:** Just on India side, what has driven such strong sales in India?
- Arun Sawhney:** There were series of measures we have taken that I was updating in the last preceding 3 or 4 quarters and the results are beginning to yield of the efforts that we had made. So I guess there are several things relating to people, relating to tools, relating to portfolio, relating to serviceability of the product etc. So all put together are yielding results and I am very optimistic that we should continue to see this sustainable improvement in results in the coming quarters. The primary reason is I think are the people who are running the business in our India region.
- Girish Bhakru:** Would you have a color on how much is the volume and price in new product growth in India right now?
- Arun Sawhney:** Sorry, volume and what did you say?
- Girish Bhakru:** Volume, price and new product introductions, split of growth?
- Arun Sawhney:** I think you can take this offline from Umang later on.

- Girish Bhakru:** The second question was on Absorica, how big is the opportunities in Brazil and other markets and when do you plan to launch in other markets?
- Arun Sawhney:** In the other markets, again it depends on how fast and how quickly we can get regulatory approvals. So at the moment, I would only maintain that we will launch in Brazil as soon as we get approvals in Brazil which definitely is not going to happen in at least next 12 months.
- Girish Bhakru:** Fine. Just clarifying from the previous question, I know you are not disclosing the details of settlement, but does it per se anyway decide the course of approvals for the remaining FTFs?
- Arun Sawhney:** Sorry, I did not get, what was that?
- Girish Bhakru:** My question is basically the settlement with the government; does it per se have any impact on what the regulator will decide on the future FTF products?
- Indrajit Banerjee:** We really have got no connection with FTF. The only thing we can say is that we get to a very fast case which we have been pursuing in the US and the way it works is either it will litigate or it will settle. It is on that line. It has got no connection with FTF.
- Moderator:** Thank you. Our next question is from the line of Ranjit Kapadia from Centrum Broking. Please go ahead.
- Ranjit Kapadia:** My question relates to API revenues. We have 466 million revenue and it has been impacted by suspension from Toansa. So when you expect a Toansa and Dewas to get normalized?
- Arun Sawhney:** I think over the period of next couple of quarters, we should see absolute normalization of these operations for our API business.
- Ranjit Kapadia:** And are we currently supplying to the non-regulated markets?
- Arun Sawhney:** We are supplying to several markets around the world, regulated and non-regulated.
- Moderator:** Thank you. Our next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Sir is it possible to share some details on Nexium exclusivity. We were supposed to launch it end of May. What are the current thoughts on the launch timelines?
- Arun Sawhney:** Sameer, still we continue to maintain, that we believe we have the exclusivity and we will launch the product upon receiving approval from US FDA. At the moment, I cannot comment more on that.
- Sameer Baisiwala:** Sir just one follow-on on this. Is this situation quite similar to Diovan that in case the delay is more than 180 days, you would continue to preserve that exclusivity?

- Arun Sawhney:** At the moment Sameer, I can only say we believe we have the exclusivity and we will launch upon approval. I cannot comment beyond that today.
- Sameer Baisiwala:** Sir the second question is on the subpoena served by Department of Justice. You know this is related to Toansa. What could be the implication of this and DOJ did not ask you the same for Mohali facility. So what is it that is different between the two cases, both were served import alerts right?
- Indrajit Banerjee:** Your question is what is the status on this? Is that what your question is, sorry?
- Sameer Baisiwala:** What is the implication of the subpoena served by Department of Justice related to the Toansa facility?
- Indrajit Banerjee:** We have said earlier that the subpoena is of an administrative nature. It is directed towards getting some documents and questions and some information relating to the Toansa import alert related matters. It is not nothing more than that as far as our knowledge goes at this stage. So it is only in the state of providing information to certain questions that they have asked for.
- Sameer Baisiwala:** Sure sir. I get that point. But you know once there was DOJ settlement and then there was a Mohali import alert and then there was Toansa import alert. DOJ did not ask for the similar information as far as the Mohali facility is concerned. So is this something different in Toansa and could this get as serious?
- Arun Sawhney:** I see at the moment Sameer, it is an administrative subpoena. What, whether it will develop further etc., we do not know after we had provided the information to DOJ. I think more decisions would be taken thereafter I guess.
- Moderator:** Thank you. The next question is from the line of Manoj Garg from Bank of America Merrill Lynch. Please go ahead.
- Manoj Garg:** Just would like to understand how is the growth in CIS and the Romania market while I think you had given some numbers in the opening comments that like when look at in terms of percentage, how the growth in these two markets?
- Arun Sawhney:** If you can repeat that question, please. You are talking about the CIS market. Is that what you said?
- Manoj Garg:** Yes, talking about the growth in CIS, that means Russia, Ukraine and Romania markets.
- Arun Sawhney:** What about it? What was the question?
- Manoj Garg:** The growth during the quarter?
- Arun Sawhney:** I have said it is more or less same as the previous quarter against the difficulties that we faced in Ukraine where the political and war like situation in Crimea. Romanian market is stagnant

but we still continue to maintain a small growth and number one leadership position in the generics plus OTC market. In Russia, our sales have been driven by better pricing and ARV business.

Manoj Garg: I am asking about the growth in Russia.

Arun Sawhney: Can you take all these figures from Umang offline. At this time, I can give you broad view of the region wise sales.

Manoj Garg: Sure, no issues. And about Africa if you adjust to the tender business, is there a growth in the base business extended?

Arun Sawhney: Base business is healthy and I am very optimistic that through the year we will see much better growth in African core business going ahead.

Manoj Garg: And the last question, like since now you got a clearance from both the bosses like BSE and NSE about the merger and the no objection certificate. Is now the issue with SEBI with regard to insider trading is also over or like they will start a separate decision on that of insider trading?

Indrajit Banerjee: We have got the clearance from SEBI through the stock exchanges to move ahead with the core process. We are moving along that line. We would not be able to tell you what is the status of the investigation, but we are pretty sure that the merger process through the SEBI and the stock exchange is moving along on its own merit.

Manoj Garg: And we are still maintaining the timeline in terms of by this year end, calendar year end kind of completion of this merger process?

Indrajit Banerjee: We believe so, yes.

Moderator: Thank you. Our next question is from the line of Alok Dalal from Motilal Oswal Securities. Please go ahead.

Alok Dalal: Sir, did I hear you correctly that there has been reduction of certain remediation cost this quarter?

Indrajit Banerjee: Remediation cost has been low in the current quarter, yes.

Alok Dalal: Is this a new normal now or will this kind of fluctuate over the next few quarters?

Arun Sawhney: It is difficult to say whether this will continue. It has tendency to fluctuate based up on the resources that we used to get this going based upon developments that happen, based upon the various steps that we take. So it is difficult to give any guidance on this. But this quarter, it has been low. It may fluctuate in the future.

- Alok Dalal:** Sure. And how is the overall remediation progress for each of these plants, any comments on that?
- Arun Sawhney:** Yes, we have under the CD, some obligations to fulfill and we are proceeding as per the timeline sort of obligations.
- Moderator:** Thank you. Our next question is from the line of Aditya Khemka from Ambit Capital. Please go ahead.
- Aditya Khemka:** Sir my question pertains to Nexium. So post the Nexium OTC launch, do we see credible threat to the addressable market with our FTF asset or is our addressable market still intact given that the Nexium OTC is a lower strength product.
- Arun Sawhney:** We see not a significant reduction in the opportunity as of now.
- Aditya Khemka:** Thanks for that and sir my next question is on the subpoena again following with the question of the previous participant. Sir if I understand correctly, subpoenas are generally issued when information or when the cooperation is not there from the counterparty. That is the legal procedure of obtaining information in case the cooperation is not there. Is my understanding correct or am I missing something here in the subpoena?
- Indrajit Banerjee:** No, that is not our understanding and that is not our experience either. I think it is a process in the US judiciary system or DOJ in this case. It is something that they have asked for and we have to provide for. As we said, it is an administrative procedure. I suppose there will be various types of subpoenas. It is not one word does not catch every type of summons or whatever. So as we understand, it is an administrative subpoena. It is asking for information which we have given. We do not believe it has to do anything with our cooperation or non-cooperation to any such request.
- Aditya Khemka:** And sir lastly on the ARV business in Africa, have we seen any improvement in terms of the pricing environment in the ARV business in Africa in terms of the tenders?
- Arun Sawhney:** It is also a factor of the portfolio. Yes, we expect that we should be having a better portfolio and a better realization in the coming period.
- Aditya Khemka:** So there has been some improvement overall in the environment in terms of –
- Arun Sawhney:** Yes.
- Moderator:** Thank you. We have the next follow up question from the line of Sonal Gupta from UBS. Please go ahead.
- Sonal Gupta:** Sir could you tell us what is the R&D expense for this quarter?
- Indrajit Banerjee:** It is Rs. 905 million. It is there in the press release.

- Sonal Gupta:** So one is the R&D run rate sort of continues to remain low, so any reasons for that. How you are looking at it?
- Arun Sawhney:** No, we should see improvement in R&D expenditure in the coming quarters. So this is low even as per our normal spend. So we should see improvement or increase in R&D expenditure in the coming quarters.
- Sonal Gupta:** The other thing is that you partly discuss that in terms of there is a lower operating expense because of the low remediation cost, but is that the only driver that if you were to sort of look at this sequentially on a Q-on-Q basis or is there something else as well?
- Arun Sawhney:** Overall, I think this low remediation cost is the only driver and I think there are several expenditure accounts which we have very closely monitored. So all expense accounts have been very closely monitored and improvement and cost control in expenses, you should expect will continue. But on remediation costs as Indrajit mentioned, will fluctuate quarter to quarter, but if you want to look at a trend on annualized basis, yes, you should see them reduce year-on-year. But on quarter-on-quarter that would be unfair because that would depend on the activities that are undertaken in a particular quarter. So quarter-on-quarter there could be fluctuations, but on annualized basis you should see control in remediation costs too.
- Sonal Gupta:** Sir previously you sort of indicated I think remediation cost in the range of around 3%-3.5% as a percentage of sales for the full year. Would that still be the range or do you expect it to...
- Arun Sawhney:** That is reduced because we are also expecting growth in sales over annualized period.
- Sonal Gupta:** And just lastly in terms of the Africa business, how much of your business is tender driven?
- Arun Sawhney:** I think again with such granularity, you can take the figure from Umang because they vary from country to country in several African countries. We are present in more than 45 out of the 54 countries and we do business in each one of them. The total consolidated continent business and you can take the figure from Umang.
- Sonal Gupta:** And again sir coming back to the APAC, you said that basically it has come down because of lower Malaysian government tender sales, so again is that the only factor or are we seeing some...
- Arun Sawhney:** That is the large factor in the APAC sales.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from CIMB. Please go ahead.
- Prakash Agarwal:** The question is on other operating margins which has been started to improve and I heard you in the last previous conversations that this remediation cost could be volatile in the quarters, but in the past we have talked about that every 6 months, we would see this remediation cost going down. So do we expect that the process has started and given the fact that the API

supplies will come back and business momentum looking upwards, we would start seeing EBITDA margin improvement from this base as well?

Arun Sawhney: In the past, I had mentioned not about remediation cost specifically, but I mentioned is EBITDA margins in tranches of half year measurements should see improvement and yes, we should continue to see those improvements.

Prakash Agarwal: So this is clearly the base and then we see improvement from here on.

Arun Sawhney: Yes, I think so.

Prakash Agarwal: And second question is on the ANDA filings and have we done any ANDA filings and what are the current pending approvals stand?

Arun Sawhney: We do not, I think as a practice, disclose our ANDA filings. We have not done that. Yes, there would be filings, but we do not disclose the product that we have filed.

Prakash Agarwal: But it would be fair that the filing process is continuing or what should be thinking about this.

Arun Sawhney: Yes, the R&D activity is continuing. We have through alliances worked on filings. We are working on filings from home. Yes, filing process would continue during the year.

Prakash Agarwal: And lastly we have some distribution business from some of our midcap peers like IPCAs of the world, I mean with the merger process on, is the business of those distribution business taken a backseat and you are focusing on consolidation? Could you throw some light there?

Arun Sawhney: That is too early to say. I think at the moment, we are focusing on growing the Ranbaxy business and I think we will be able to talk about the business of the merged entity only after the entities have merged. It is premature to talk about those businesses now.

Prakash Agarwal: And the distribution business that we do for other players?

Arun Sawhney: I think it is unfair to comment for what the merged entity will do now. As of now, we will continue to do business as usual.

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

Sameer Baisiwala: Sir a quick question. I am not sure whether you have taken this so far on the call. The gross margins have improved sequentially roughly about 200 basis points or so. What is driving this improvement?

Arun Sawhney: There are various things which are driving the improvement. Essentially it is to do with the product mix, the branded product getting sold, being promoted in the base market. So it is more to do with product mix. I think it is fair to say that it is to do with product mix.

- Sameer Baisiwala:** Sir the product mix where it is concerned your India and CIS is better and US is actually not doing as well, but I would not have thought that India is a better margin than US, no?
- Arun Sawhney:** Absorica is still there in US.
- Sameer Baisiwala:** No, Absorica market share is constant QoQ basis right. That has not been a delta factor.
- Arun Sawhney:** No, our base business, generic business in US has also done very well during the quarter.
- Indrajit Banerjee:** No, but you are comparing what? You are comparing this quarter with the previous quarter or the previous corresponding quarter.
- Sameer Baisiwala:** Sequentially yes.
- Indrajit Banerjee:** In either case, the markets have improved.
- Sameer Baisiwala:** Sir the question is what is driving this improvement in the gross margins, sequentially.
- Arun Sawhney:** Sameer, it is largely mix only in different markets with a better portfolio or better weightage to product with higher margin is what is driving the better margin.
- Indrajit Banerjee:** Sameer, if you compare our raw material cost as a percentage of sales that will throw light on the fact that our raw material cost as a percentage of sales is going down or has been better compared either to the corresponding period quarter of the previous year or this quarter. So that essentially is a reflection of the fact that the product mix has improved, gross margin has improved.
- Sameer Baisiwala:** And sir the second question is, is it possible to say now with Diovan in full swing, being manufactured from New Jersey own facility. What would be the current capacity utilization there?
- Arun Sawhney:** We have ample capacity to pump more product if we want to, not a concern.
- Moderator:** Thank you. Our next question is from the line of Anshuman Gupta from Edelweiss Financial. Please go ahead.
- Anshuman Gupta:** Sir after IPCA actually deciding to stop any production for the US right? How does it really impact you?
- Arun Sawhney:** We are assessing this, I do not have ready figures right now. I think we are making this assessment as of now.
- Anshuman Gupta:** But this is something that cannot be replaced right way?

Arun Sawhney: Too early to say. I would not comment that. So till we complete our assessment, I think it is unfair to comment.

Moderator: Thank you. We have the next question from the line of Hitesh Mahida from Antique Stock Broking. Please go ahead.

Hitesh Mahida: Sir just wanted to know your view on the Romanian business. This was supposed to be one of the key markets and we seem to have not done so in the last 2-3 years. So what is really affecting this particular geo of business of us?

Arun Sawhney: Compared to the market opportunities, we have done very well. I would not say we have not done well and we continue to remain the number one generic and OTC Company in Romania and we foresee that we will continue to be that. At the same time, we have also looked at introducing novel and innovative products. We did that through in-licensing product from Daiichi Sankyo. So we have now a mix of generic as well as innovation driven products. We are very bullish about our position in the Romanian market. Going ahead with improvement in our product mix, we should continue to turn up better than market performance in Romania.

Hitesh Mahida: And sir secondly just wanted to know what has been our market share in the initial couple of weeks as far as Diovan is concerned. Has it been better than our expectations?

Arun Sawhney: I think if you really want to assess market share, we should wait for at least 4 weeks. We will wait for a month. A month later on pricing we should begin to monitor market shares.

Moderator: Thank you. The next question is from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

Chirag Dagli: Sir, what kind of price erosion have we seen in Diovan?

Arun Sawhney: You can say a little over 60%.

Chirag Dagli: Sir second question was on your margins. Sir if I look at our gross margins, they are very close to our peers, 63%-64% kind of gross margins. Below the gross contribution margin there is obviously a very large overhead. What I was trying to assess is where is this overhead residing? Is it in India, is there any color that you can provide onto geographically which markets is this overhead lying. Whether this is part of manufacturing or is this part of distribution? Any color that you can provide on this very large which is almost 50% of our overall sales. Where is this overhead lying?

Arun Sawhney: It is lying in the expense line item. You are talking about the presentation in the account, is that what you are looking at?

Chirag Dagli: I am just looking at the audited numbers. I am saying that our gross margins are 63%-64% and our EBITDA margins are 10%. The difference between the two is obviously 50%. Where is this cost lying?

- Indrajit Banerjee:** It is sitting in employee cost, it is sitting in depreciation, and it is sitting in other expenses. It is sitting in these three heads.
- Chirag Dagli:** Geographically where is this, would you think that a substantial part of this is manufacturing. If you can give us some sort of color of how much is manufacturing overhead, how much is distribution overhead?
- Indrajit Banerjee:** It is difficult for us to give you region wise, but I think it is sufficient for us to say that there is a significant amount of clear manufacturing capacities which is resident in our systems and that is of course in India, quite a large part of that is in India and overall if you look at the total expenses, there is a significant amount of manufacturing capacities which is sitting there, which relates to less than optimal use of capacity. There is no doubt about it.
- Chirag Dagli:** Can you give me the split of our employee strength between in India and outside of India?
- Arun Sawhney:** Umang can give that to you.
- Moderator:** Thank you. We will take the last question from the line of Mr. Agarwal from Akash Ganga Investment. Please go ahead.
- Ashwin Agarwal:** I understand you are not disclosing the ANDA filings, but at least can you throw more light on differentiated product filings which you have made directly or through alliance partners for next 2-3 years. What can pan out like Ximino, Absorica, what other products have you kind of lined up?
- Arun Sawhney:** In the US, we are looking into differentiated products in Derma segment and elsewhere in the world depending on the therapeutic segment where we want to bring in differentiated products. We will be looking at those therapeutic segments in other parts of the world. So in US it would be Derma and in India it could be more than the chronic segment and so on. So it is market specifics that we would be looking at how to bring differentiated products in our key markets around the world.
- Ashwin Agarwal:** If I can ask had the Sun Pharma transaction not happened, did Ranbaxy had enough products for the US market to grow the business in the US?
- Arun Sawhney:** I think as a growing concern, we had our own strategies and plans to also grow the company standalone business in all the key markets.
- Moderator:** Thank you. I now hand the floor back to Mr. Umang Khurana for closing comments. Thank you and over to you sir.
- Umang Khurana:** Thank you everyone for joining us and Eid Mubarak.
- Moderator:** Thank you sir. Ladies and gentlemen on behalf of Ranbaxy Laboratories Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.