"Q 4 and Full Year 2012 Results Conference Call of Ranbaxy Laboratories Limited"

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SPEAKERS: **Mr. Arun Sawhney, CEO and MD**
Mr. Indrajit Banerjee, CFO and President
Mr. Umang Khurana, Head, Strategic Decision Support and Investor Relations

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Moderator: A very good afternoon, ladies and gentlemen. I am Souradip Sarkar, the moderator of this call. Thank you for standing by and welcome to the Q4 and full year 2012 results conference call with Ranbaxy. For the duration of presentation, all participants' line will be in listening-only mode, and there will be a presentation followed by a question and answer session. At the onset, a few ground rules, we would request all the attendees; please strict to your questions to two in numbers. I would like to now hand over the proceedings to Mr. Umang Khurana, Head, Strategic Decision Support and Investor Relations from Ranbaxy. Over to you, Sir.

Umang Khurana: Thank you, Souradip. Hello everyone and welcome to the Ranbaxy post results conference call for quarter four and full year 2012, that is October to December 2012 calendar year. Earlier in the day the company issued a press release detailing the financial results for the quarter and the full year. The press release and the presentation that the management will discuss with you now will also be uploaded on the company's website for your ease of reference.

On the call today 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 performance for the quarter and the year. Thereafter Mr. Indrajit Banerjee, CFO and President at Ranbaxy, the next speaker will detail the financial performance of the Company. Post the presentations we will have time for addressing the questions that you, the participants on the call may have. 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 fourth quarter and the full year 2012 financial results of Ranbaxy. Sales in the fourth quarter of 2012 were Rs.26,708 Mn, which is lower than the sales in the corresponding quarter in 2011 primarily due to contribution form exclusivity opportunities in Q4, 2011 when compared to the contribution of sales in Q4, 2012. On a like-to-like basis that is excluding such opportunities, sales grew over 10% over the corresponding quarter of the previous year. EBITDA margins were impacted due to higher spend in

R&D, atorva recall and organisational productivity projects.

Sales during the year 2012 were Rs.122,529 Mn, a robust growth of 23% over 2011. This stronger sales performance during the year was primarily due to strong exclusivity sales of Atorvastatin, that is Lipitor®, and Amlodipine plus Atorvastatin that is Caduet® and post exclusivity sales of molecules leading to a stronger base business performance. EBITDA margins in the year were at 15% while this may seem lower than 16% margins in 2011, base business margins led by focus and key products and productivity improved during the year.

Ranbaxy launched Absorica™ a patented novel drug for treatment of severe recalcitrant nodular acne in patients 12 years and older of age, during the quarter. The initial response from physicians has been promising. Earlier in the year the company launched Pioglitazone hydrochloride that is Actos®, as an authorised generic in the US and has been successful in maintaining over 30% market share. Emerging market sales have been adversely impacted by the strengthening of the dollar against most currencies. I will talk about the movement of the dollar against the major currencies in a while.

Primary sales in India grew by over 10% both during the quarter as well as the year. Synriam™, India's first new drug launched by Ranbaxy features amongst the top new product launches in the Indian pharmaceutical market in 2012. USA-based business sales excluding first-to-file opportunities continued to strengthen. The focused approach on West Europe helped the region sales improve for the quarter over the corresponding quarter of the previous year. Dollar appreciated against most currencies compared to the previous year. The dollar appreciated against most emerging market currencies, which is significant for Ranbaxy as the emerging market sales contribute over half of the sales excluding exclusivities both during the quarter as well as the year. While local currency performance of business may have been strong, performance in dollar terms may not reflect the right growth. To reflect like-to-like performance, the sales growth numbers are reflected on constant Forex basis.

Moving on now to discuss functional performance. The strategy for the developed markets is to expand base business and also address niche opportunities that have high barriers to entry and limited competition that makes the business model more attractive. Emerging market strategy is expanding reach through local presence wherever required and focus in brand development. Further to this the company has extended its manufacturing facilities in Malaysia and Morocco. Ranbaxy received approval to set up a Greenfield manufacturing facility by the Government of Malaysia, which will triple the existing manufacturing capacity in this focus market of Ranbaxy. The company also established a manufacturing base in Morocco. Ranbaxy's focus on R&D is primarily towards differentiated opportunities or large opportunity such as FTF.

I am happy to share that we filed five FTF in 2012 totalling to brand sales value of $4.3 Bn. With this Ranbaxy has very strongly returned to filing FTF, which we will continue in 2013 and beyond. We have already spoken about derma where Ranbaxy has strengthened its branded side of the business. With reference to FTFs. we maintain, Ranbaxy's focus and will keep addressing such opportunities. In yet another development to the hybrid business model, Ranbaxy launched the authorised generic Cevimeline hydrochloride 30 mg capsules in the US market under an agreement with Daiichi Sankyo Incorporated.

This AG form of Evoxac® is an example of optimising operational synergies that exist between Ranbaxy and Daiichi Sankyo while accelerating our global business efforts. Both the companies integrated their businesses in Thailand. Daiichi Sankyo would now handle the front-end operations of both the companies. Through this synergy under a single combined entity we will be avoiding duplication in facilities and optimise cost structure for both Daiichi Sankyo and Ranbaxy. As a continuation of the front end synergy Ranbaxy now promotes multiple Daiichi Sankyo products including Olmesartan, Prasugrel, Pravastatin, Ofloxacin, Lopressor, Congescor and Raloxifene in various emerging and developed markets including India, Singapore, Malaysia, Romania, Africa region and Italy.

On the other hand the model also incorporates opportunities where Daiichi Sankyo will take the lead in markets where it is a stronger company, for example, other than Malaysia I mentioned earlier. During the year Ranbaxy and DS joined hands in Venezuela where DS will replace the local distributor for Ranbaxy. Not withstanding the front-end collaborations Ranbaxy will continue to participate in supply agreement business that does not require an active front end. Both companies continue to work on multiple other complementary synergies on the front end and other parts of the value chain in pharma business. With regards to other significant developments during the quarter on the consent decree that we signed with the US authorities at the end of the previous year the progress is satisfactory and as per plan.

15 Ranbaxy facilities across the world where inspected by International Regulatory Agencies in the quarter, all successfully. In November 2012 Ranbaxy made a voluntary nation wide recall of Atorvastatin calcium tablets in the USA due to a potential presence of very small glass particles in the product. The company identified the cause and has remedied the same. As part of the first step in initiating manufacturing process to resume supplies for the US market we have commenced the production of the drug substance for Atorvastatin drug product. The unfortunate recall had a large impact on Ranbaxy's financial performance for the quarter and indeed the year.

On the financial side with respect to the derivatives position the total leverage position at the end of the quarter, fourth quarter 2012 was \$1.07 Bn down from \$1.27 Bn from the preceding quarter and \$1.62 Bn at the end of 2011. On an average \$40 Mn worth of derivatives mature every month. Considering the volatility of dollar and rupee Ranbaxy had marked to market on it's financial owing to the dollar appreciation. Total debt for the quarter was \$885 Mn. Aided by sales contribution from exclusivities, cash position improved substantially during the quarter to \$840 Mn resulting into a decline in the net debt position to \$45 Mn from the net debt position of \$267 Mn in calendar year 2011.

Let us now consider the results for the quarter and the year by geography. Sales for the quarter were as I mentioned earlier Rs.26,708 Mn while for the year the sales were Rs.122,529 Mn. The sales for the year at Rs.122,529 Mn make this, the highest ever sales in any given year for Ranbaxy. Sales in key emerging markets of India, Romania, Russia and Africa grew and developed market sales performance was substantially better supported by strong sales of exclusivity opportunities in the USA.

Moving on to the regional sales details, North America sales were Rs.8,510 Mn for the quarter and Rs.53,336 Mn for the year. Sales declined as corresponding quarter had a large contribution from Atorvastatin FTF and Amlodipine and Atorvastatin AG in the previous year. USA sales for the quarter were Rs.7,371 Mn while for the year were Rs.49,677 Mn. Decline in the sales during the quarter was on account of large contribution to sales from exclusivity opportunities in Q4, 2011 as mentioned earlier. Ranbaxy continues to maintain leadership in Amlodipine plus Atorvastatin generic market with over 50% market share.

During the year the company launched Pioglitazone AG and currently holds over 30% of the market share despite fierce competition from several companies. As mentioned earlier Ranbaxy launched Absorica™, NDA for nodular acne during the quarter. Current market share in the differentiated product is in the 5% range. Going over to India, sales in India were Rs.5,418 Mn in the quarter, which is 12% higher than Rs.4,893 Mn from the corresponding quarter in 2011. For the year, sales in India were Rs.21,661 Mn as against Rs.19,452 Mn in 2011 reflecting a growth of 12% in India. Consumer health care sales were Rs.1,030 Mn and Rs.3,733 Mn for the quarter and year respectively.

Synriam™ the anti-malaria NCE first ever new product developed from any company of Indian origin featured amongst the top new product launches of IPM within nine months of its launch. While the overall Indian Pharmaceutical Market seems to have slowed down to around 9% levels; as promised, Ranbaxy’s sales were stronger and performed inline and bettered the market in performance.

Moving over to East Europe and CIS, as you are aware from the beginning of this year for sharper focus on markets, we split our European regional business into East Europe plus CIS and West Europe. Ranbaxy continues to maintain leadership positions in its represented market in Romania and Russia amidst the ongoing regulatory changes. For the quarter, sales in the region were Rs.3,833 Mn an improvement of 17% over the corresponding quarter on a constant Forex basis while during the year the sales were Rs.13,374 Mn. Of this, Romania sales for the quarter and for the year were Rs.1,550 Mn and Rs.5,729 Mn respectively. Russia sales for the same period were Rs.1,454 Mn and Rs.4,436 Mn respectively.

Going over to west Europe, sales in West Europe were Rs.2,209 Mn for the quarter and Rs.9,509 Mn for the year, even as macro economic indicators continued to be a challenge for the business environment in the region. Sales for the year were aided by the successful Atorvastatin launch in various European countries. During the year performance improved in the region as the company came through some of the concerns in the UK and stronger sales in Spain and Italy.

The APAC and Middle East region had sales of Rs.1,354 Mn for the quarter. Sales in the region were lower than the corresponding quarter sales, however on full year basis sales continued to grow. Sales for the year were Rs.5,715 Mn up from Rs.4,743 Mn. In the region, Australia and New Zealand returned strong performance during the year helped by the launch of Atorvastatin. Growth in Thailand after renewal of supply from local manufacturer. Ranbaxy and DS integrated their operations in Thailand to achieve potential synergies and optimised cost structure for both. I have already mentioned the expansion of manufacturing facilities in this emerging market through a Greenfield plant in Malaysia earlier.

Sales for the Africa region for the quarter were Rs.2,656 Mn, for the year the sales were Rs.9,428 Mn. As was the case with most of the emerging market, sales in dollar terms were impacted by weaker currency. Performance in the important region has started to improve after manufacturing challenges have been overcome. The other reason that growth may seem slightly tepid is that the corresponding period includes the sales from tenders. For our focus markets including Africa we will continue to strengthen our business with necessary infrastructure and investments as maybe required.

Sales for the LatAm region were lower at Rs.591 Mn for the quarter and Rs.2,201 Mn for the year. We have begun to correct our internal challenges in the current year and look forward to a stronger regional performance in 2013. Sales for API and others were Rs.2,142 Mn for the quarter and Rs.7,305 Mn for the year. Ranbaxy has focused profitability in its API business and this has paid us well. We are working towards consolidating our presence in markets and improving our customer base. With this we will grow a substantial, profitable, sustainable business for our API business. From here, Indrajit will now take you through the financial performance for the quarter and the year. Over to you, Indrajit.

Indrajit Banerjee: Thank you, Arun. Good day to all the investors on the call. I will just give quickly run through the financials, which were declared earlier in the day. The sales for quarter four as was mentioned earlier was Rs.26,708 Mn versus Rs.37,520 Mn at the corresponding quarter of the previous year mainly due to higher comparable sales and FTF and atorva in the previous year's corresponding quarter. Base business however, grew by over 10% during the quarter despite the opportunity lose of atorva sales during the quarter which was about a billion rupees in order of magnitude.

You will also see an exceptional item of Rs.1,860 Mn in the current quarter, which represents consequential cost which includes sales return, inventory write off and customer claim associated with the Atorvastatin recall during the quarter and that amount has been quantified as an exceptional item in the results. Sales for the year was Rs.122,529 Mn a growth of 23% over the corresponding year, geography by sales as you have just heard from the CEO.

Other operating income was Rs.404 Mn in the quarter down from Rs.742 Mn from the corresponding quarter of the previous year mainly on account of lower FTF related export incentives as well as the discontinuation of some

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non-compete fees that was featured in previous preceding quarter. This is also true when we consider other operating income for the full year of 2012 versus the previous year. Material consumption in the quarter was affected by the recall and the related write-off as I mentioned earlier. While for the full year the cost of material was 33% of sales without adjusting for FTF and AGs.

Other expenses amounted to Rs.9,439 Mn which when compared as a percentage of sales without FTF for a like-to-like view was about 37% for quarter four of 2011 and quarter four of 2012. On a full year basis, the other expenses of the percentage of sales without FTF was lower by about a percentage in 2012. Expenses material consumption as you see from the absolute numbers is a bit higher owing to, as it was mentioned earlier, the higher R&D expenditure in the quarter and some additional expenditure associated with organisational structuring and productivity improvement projects as well as certain stock write-off.

Further, the remediation-related expenses were also higher on a sequential basis. In total these expenses if you take all these items into account amounted to about Rs.1.3 Bn in the current quarter. Employee costs were Rs.4,813 Mn in quarter four 2012 in percentage terms these are in line with the previous quarter. Growth over the corresponding quarter is mainly on account of some increase at manpower specifically in the quality control function and strengthening of regional sales teams. Employee costs for the year were Rs.19,284 Mn versus Rs.16,451 Mn in the previous year again owing to the same reasons as I mentioned earlier.

Decrease in depreciation, amortization and impairment Rs.805 Mn in quarter four versus Rs.1,681 Mn in 2011 is mainly due to the impairment of one of our facilities. Rs.704 Mn in the prior period being offset by higher depreciation on account of new Capex spending in the current quarter. Claim and contractual expenses were Rs.506 Mn in quarter four versus Rs.6,968 Mn in quarter four of the previous year owing to certain significant contractual obligation being accounted for in the prior period.

The reasons we have discussed at length with regards to EBITDA in the quarter and these need to be taken into account while looking and comparing the EBITDA numbers. So, the full year EBITDA was Rs.18,227 Mn, which was impacted also by the factors I mentioned above. Other income increased to Rs.767 Mn in the current quarter from Rs.432 Mn in the preceding year's corresponding quarter due to higher interest income on accumulated deposits.

Finance cost has increased Rs.1,356 Mn in the current quarter versus Rs.909 Mn in the corresponding quarter of the previous year mainly on account of a part of the Forex loss being aportioned to financing cost which is the accounting policy followed in the present quarter as it has been in the preceding quarter as well. As you know, that under the present accounting guideline a portion of the Forex loss associated with foreign currency loans needs to be carried to the financing cost account in order to account for the differential interest rate between Forex and rupee loss. That's according to the accounting principles currency being followed.

For the full year finance cost we had Rs.3,035 Mn versus Rs.3,064 Mn in the preceding year also includes Forex adjustment on the interest cost portion of Forex loans. Forex loss on the other account has a Rs.282 Mn in Q4 against the loss of Rs.906 Mn in the preceding year this relates to trade transactions and fixed deposits. Under the exceptional item there is again a Forex line representing the adjustment taken on account of the derivatives outstanding position and the impact there is Rs.1,799 Mn in the current quarter against Rs.8,379 Mn loss in the preceding year. This is on account of depreciation of the rupee in quarter four.

Exchange rate of 54.76 has been taken as at 31st December versus 52.86 as at 30th September 2012 and that accounts for the mark-to-market adjustment, which is an accounting entry for the current quarter. For the full year there is loss amounts to Rs.412 Mn in 2012, where in a situation where the rupee depreciated by above 15% during the course of the year relative to the average rate prevailing the previous year. That's for the current year and it has been accounted for Rs.2,939 Mn and now this relates entirely to other entities, this is mainly US, Romania and the other entities, is outside India, which have recorded profits in their legal entities and therefore tax has to be accounted for in those entities. So, that's the summary and with this now I hand it back to Umang.

Umang Khurana: Souradip, we are happy to take questions now.

Moderator: Thank you so much, sir. With this we are going to start with the Q&A interactive session. So, I would request all the attendees and the participants, if you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat, participants if you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. Here comes the first question from Mr. Prakash Agarwal from CIMB. Mr. Agarwal, you can go ahead and ask your question. Your line has been unmuted.

Prakash Agarwal: Yes, good evening sir. Just a question on the other operating expenses. The last quarter, third quarter was Rs.8.3 Bn and this quarter is Rs.9.3 Bn, I understand you mentioned about higher R&D expense but, my understanding is R&D expenditure would be a small part of it. If you can elaborate more on that because it is hitting the margins the most. So, if you could elaborate what happened last quarter and what happened in Q that would be great?

Indrajit Banerjee: Yes, Mr. Agarwal, I mentioned a few items, R&D was one of them. I mentioned that there was a higher R&D expenditure because of certain bunching of expenses in the fourth quarter. And along with that there were also other expenses, as I mentioned there were some organisation structuring and productivity improvement related projects. So, there were certain projects taken up in the company and according to the accounting principles, all these expenses have to be charged off as and when these are incurred. So, it's a combination of various factors. Taking all these into account, there was addition of those expenditures as I mentioned.

Prakash Agarwal: It would be great if you can quantify those because in the past last two-three years every quarter has been in the range of 30, 31, 32%, but the last two quarters have been an exceptional. So, if you can quantify that would be really helpful to us.

Indrajit Banerjee: It will be difficult for us to quantify. I have just given the items. And, these are the major items on which the expenditure has been incurred.

Prakash Agarwal: So, on a sustainable basis you are saying these are one-off, so on a sustainable basis your other expenses could be in the region of 32% or it could be still on the higher side?

Indrajit Banerjee: Well, let me put it this way. Some of these R&D expenditures there is some amount of bunching up. But, R&D expenditure would be there and we would continue to invest in R&D, but in some quarters they maybe high, some quarters they may not. They maybe a little bit lower but it may have an uneven pattern. But, so far as the other expenses are concerned, yes, quite a bit of this has been one-time expense. There is also some remediation expenses associated with the CD matters which would continue for some time until the engagement of external consultants come down. But, so far some of the other projects as I mentioned productivity improvement projects, organizational structuring related projects etc those would diminish.

Prakash Agarwal: Okay. And, second question on Europe, I mean, last few quarters we were clocking around $70 million. Third quarter we were at 53 and this quarter we were reported $40 million. So, what's happening there?

Arun Sawhney: In West Europe, 4th Quarter 2011 was Rs.2,129 Mn and 4th Quarter 2012 is Rs.2,209 Mn. So, it is higher. In the calendar year 2011 the sales were Rs.7,381 Mn. Calendar year 2012 it is Rs.9,509 Mn in West Europe.

Prakash Agarwal: No, but rupee depreciation benefits are 15% for the year, so.

Indrajit Banerjee: 15% is against Dollar. Euro is not exactly 15%. I don't exactly have the number with me.

Prakash Agarwal: Yeah. So, basically any particular reason of the slowdown in the last two quarters, say, even in GBP terms, constant currency terms?

Arun Sawhney: The growth that we are showing is on constant Forex basis which I have clarified at the beginning of my address.

Prakash Agarwal: I mean, even if you take rupee term it's not a very great growth. So, any particular reason you can think of?

Arun Sawhney: Umang will explain to you all the figures offline, because I think in your analysis you are confusing between East and West Europe which was clubbed last year and we have now separated West Europe and East Europe is clubbed together with CIS. So, the refined figures, I think, you can speak to Umang offline and take the figures.

Prakash Agarwal: Sure, we will do that. Thanks.

Moderator: Thank you Mr. Agarwal. The next question is from Mr. Anubhav Agarwal from Credit Suisse. Mr. Agarwal you can go ahead and ask your question. Your line has been unmuted.

Anubhav Agarwal: Thank you. Just one question Mr. Banerjee. Sir, can you just provide the generic user fees that you have paid cumulatively so far to the FDA?

Indrajit Banerjee: Sorry, we are not in a position to disclose numbers like that.

Anubhav Agarwal: But, would you say that this was part of the expenses in this quarter? For your ANDAs which are pending before 2008 were you required to pay generic user fees?

Indrajit Banerjee: I think, it would suffice to say that the fees that you are referring to would not be very material. I do not have the numbers right now with me, but that would not be material in the understanding of the results.

Anubhav Agarwal: Okay. Mr. Sawhney, can you now update on the, let's say, last two conference calls you mentioned that the consultant study on Dewas will be over or, let's say, close to getting over around December. And, that was the scope for study where you will at least know that how much work needs to be done to be planned to be compliant with the FDA requisition. So, just repeating my question from the last two calls that if all goes well absolutely the best case for Ranbaxy, are we away from the Dewas resolution, let's say, one year, two years or we still cannot pinpoint at a particular timeline?

Arun Sawhney: I am in regular dialogue with the consultant. I think today we cannot pinpoint. You are right. We cannot say with certainty that this is the time when we will complete all the work and this is the time we will begin exporting to the US. I can promise you one thing. The moment I have this certainty, in my discussions with the consultants I will come back to you and share with you the whole plan. Today, I can't say with certainty when will that happen.

Anubhav Agarwal: Okay. Just one more question. These contractual expenses of Rs.50 crore in the P&L this quarter what product does it relate to? Because, earlier last year the contractual expenses were for Lipitor. Now, this Rs.50 crore is for which product?

Indrajit Banerjee: It would be for several products. I mean, we would not be in a position to obviously mention pinpointing to which product.

Anubhav Agarwal: Just checking the accounting treatment when you say, your AG for several of the products those expenses will be recorded in purchase of goods and not in the contractual, right?

Indrajit Banerjee: No. It's the question of, you know, if you are paying something other than linked to the purchase of goods it goes in this line. If it's directly for the purchase of goods, then you pay them as a material consumption. If it is paid not linked to the purchase of goods directly, that would feature in this line, I think.

Anubhav Agarwal: Okay. Thank you. I will join back in the queue. Thank you.

Moderator: Thank you Mr. Agarwal. The next question is from Sonal Gupta from UBS. Your line has been unmuted. You can go ahead and ask your questions please.

Sonal Gupta: Hi. Good evening everyone. Sir, my question is in terms of the unfortunate recall of Atorvastatin and given that it is a meaningful hit to developing a base business in the US. Now, how do you see this going longer term? How does this change of plans and, I mean, this is really in context of your target to get to peer level EBITDA margins over the next three to four years? So, I mean, if you look at the numbers now for this quarter even adjusting to some extent for the one-off, I mean, you are still very far away from that. So, does it largely rely on consent decree getting over and things coming back to normal or are there some other places where you can cut costs and are there some low hanging fruits in that sense or is it all really this growth dependant and consent decree resolution?

Arun Sawhney: ` Multiple things I would say. Consent decree, obviously, as we progress in the years, let's say, three years from now or four years from now we should see tapering off of the expenses. That is one. Second, we already have launched our first branded business in the US and there would be follow-on products for our branded portfolio in the US and also in countries where branded portfolios are a strong focus for Ranbaxy say, for example, India, Romania etc. Further, I also clarify that we have returned with a bang on our first to file strategies. So, we have made five first to files totalling to more than $4.3 Bn at brand value. That will also continue. I think, overall with all of these cost control measures, portfolio rationalization, productivities both in front and as well as in the back end all of these put together will give us a vision of being amongst the best in class and profitability in three to four years from now.

Sonal Gupta: I mean, what I am trying to get that is that clearly, I mean, if you leave aside even the US issues and we understand that Europe is probably a flat or somewhere like a cash break-even that what you have indicated, I mean, it does not seem like overall the company – I mean, clearly there needs to be lot more cost cutting and if this thing on the consent decree we are going to take three-four years. Don't you need to be more aggressive on the cost cutting and need to more rationalize more on the cost front? I mean, do you see those something on that front happening or do you think that it's like you mentioned as the growth continues you will gradually see that improvement happening?

Arun Sawhney: Yeah, the base business and if you remove the exceptional expenses the base business has grown. The base business profitability has grown and obviously, I think, in the coming periods we will see improvement in the profitability.

Sonal Gupta: Right. Could you just tell us what's the total ANDAs outstanding for the company now and what was the R&D spend for the full year?

Arun Sawhney: The ANDAs figures we do not have a policy to disclose as of now. But, R&D spend is around Rs.1,400 Mn approximately.

Sonal Gupta: That's for the quarter?

Arun Sawhney: For the year.

Sonal Gupta: Only Rs.1,400 Mn?

Arun Sawhney: Sorry. It's Rs.1,400 Mn for the quarter. And, it should be in the vicinity of – I don't have the exact figure, but should be in the vicinity of Rs.5,000 Mn for the year.

Sonal Gupta: Okay. Fine. Thank you so much.

Moderator: Thank you, Mr. Gupta. The next question is from Bino Pathiparampil from IIFL. The line has been unmuted.

Bino Pathiparampil: Hi. Just a few questions. I am just following up from the earlier questions. If I adjust for Forex loss then the EBITDA margins for the quarter comes to about just 3%. And, most of the one-off or exceptional kind of expenses which you mentioned like the consultancy expenses or the process improvement expenses this don't seem to be going, maybe, in the next couple of quarters at least. So, are we looking at 3% EBITDA margins for the next two-three quarters?

Arun Sawhney: Can you repeat the question?

Bino Pathiparampil: If I adjust your this quarter numbers for the Forex loss – if I take out the Forex loss and calculate the EBITDA excluding the other income it comes to only about 3% EBITDA margin for the quarter.

Indrajit Banerjee: With reference to the points that I made earlier there were certain exceptional items. One is, of course, the Atorva recall. Then, I also mentioned about the opportunity loss on account of the Atorva sale. I also mentioned about the addition of the exceptional expenses which were there during the quarter. So, I guess, when one is looking at EBITDA and it's looking at the future profitability, I guess, one would need to take account for all these items to assess the future profit growth.

Bino Pathiparampil: Sure. But, all these three process that you mentioned like the opportunity loss in Atorva, the R&D expenses and the process improvement expenses you are incurring at the consultancies, these are not going to materially change in the next couple of quarters at least, right?

Indrajit Banerjee: Well, some of the expenses that I mentioned about the additional expenses, yes, those are exceptional to the quarter. And, these are additional expenses that we have incurred in the quarter. There is a specific amount of bunching of expenses in the quarter. That's certainly there and, you know, it is unlikely that all these expenses would actually be recurring in nature. You might have to take into accounts these factors in trying to assess the profitability.

Bino Pathiparampil: Sure, sure. Second, your guidance of Rs.120 Bn for next year, does that include some FTF opportunity in the US?

Arun Sawhney: Yes.

Bino Pathiparampil: Is Diovan part of it?

Arun Sawhney: I think, suffice to say there would be FTF exclusivities- in plural.

Bino Pathiparampil: Okay. So I was looking for, do you have a visibility of Diovan exclusivity launch any time soon?

Indrajit Banerjee: No. As I think you know, to answer your question, essentially does it include the FTF opportunities, which we are looking at now? Yes, it does include, not one but more than one FTF opportunities during the year. It does include that.

Bino Pathiparampil: Right. And specifically, does it include Diovan in 2013?

Arun Sawhney: You can presume, yes.

Bino Pathiparampil: Sorry?

Indrajit Banerjee: Well, you know, as a matter of principle, I think it will be difficult for us to exactly spell out but it is for you to assume and, you know, have your own presumption. That's absolutely fine.

Bino Pathiparampil: Okay. Yes, okay. I'll join back in the queue. Thank you.

Moderator: Thank you so much. And the next question is from Mr. Sameer Baisiwala from Morgan Stanley. The line has been unmuted.

Sameer Baisiwala: Yeah. Hi, good evening. Is it possible for you to share with us, what was the base business operating margin for 2012 excluding one offs— you know, expenses and FTFs?

Indrajit Banerjee: Sameer, we would like to refrain from doing that. You know, we've given our explanations of the exceptionals and the abnormal items, which are there. But for us to quantify exactly what the base business margin is, it will not be possible for us. It will not be right for us to do so.

Sameer Baisiwala: But sir, when you are setting out a target one year and three to four years out, is it not important for us to know what is the starting point?

Sameer Baisiwala: Are you under 10%? Are you over 10%? What is your operating margin right now for the base business?

Indrajit Banerjee: No, I mean it's not in our guidance. You know, Sameer, we have given a guidance, which is there in the press release and that's the guidance that we will stay by. And we will, you know, and as and when we go forward, if we need to sort of you know, give further guidance we will give it. But that's the guidance that we are working on and that's what we will stick to that principle.

Sameer Baisiwala: Yeah, sure. But I was referring to the three to four years, your target of reaching the industry average or even beating that, that's what I was referring to. Okay, the other question that I have, I think Mr. Sawhney said, you know, in a passing remark that 5% share of differentiated products now, is it in the Ranbaxy's— it was in the context of Absorica™ if I'm not wrong. Is this 5% of the total revenues for Ranbaxy's or 5% of the market share for the product?

Arun Sawhney: Sameer, this was limited to only the Retinoids in the US and at the moment that would be 5% of the market share of the Retinoids in the US.

Sameer Baisiwala: Okay, got you. I'll get back into the queue. Thanks.

Arun Sawhney: Okay, thanks.

Moderator: Thank you so much. So, we will now take the last question. And that is for Mr. Saion Mukherjee from Nomura. The line has been unmuted.

Saion Mukherjee: Yeah, thanks for taking my question. My question is you know, related to this productivity improvement exercise and the cost associated with that. Can you throw some more light as to what exactly is this improvement exercise that we're trying to attempt here?

Indrajit Banerjee: These are various projects that's obviously that, you know, there are various projects across the company with regard to improving efficiency and improvement in various stages in various parts of the organization. Difficult to point out the specific projects at this stage but suffice to say that these— some major cost improvement measures, efficiency improvement measures, which are being taken across the company and these would obviously lead to some immediate expenses while these projects are getting launched and these projects are getting implemented. But I'm sure that these efforts would lead to better efficiency and lower cost as we go forward. And also the bunching up of expenses as we have seen in the last quarter would also in a way diminish. So, you would see the results, you should see the results of that in the coming quarters.

Saion Mukherjee: Okay. On Diovan exclusivity, is there any risk that you see of losing the exclusivity and what kind of visibility we have now on getting an approval?

Arun Sawhney: Part one of the question, do we see risk? No, we see no risk in exclusivity. Part two, we do not have the visibility, we are waiting for FDA to respond. As soon as we have approval from FDA we'll launch the product.

Saion Mukherjee: Okay. And just one final question on your margins, see we are talking about 10% kind of a base business growth. And we are seeing, you know, the overheads related to employee cost or other expenses because all the initiatives that we are taking— our expenses are probably going to grow faster than that. So, the assessment is that how we are expecting the margins to improve atleast in the near term? Let's say over the next one-year or so?

Arun Sawhney: There is a front-loading of the cost because of the several measures that we are taking. Productivity improvement measures, remediation measures. There are several other initiatives we are taking and especially in manufacturing facilities, QC infrastructure and so on. Over the coming years, we should see improvement in our margins every year leading to— by the end of the planned period in three, four years. Being with the industry standard or better as Sameer was mentioning.

Saion Mukherjee: So, these were productivity related improvement exercises et cetera. These were like started last quarter? I mean, this is a very new initiative and the decisions were taken over the last one-quarter?

Arun Sawhney: Yes, you're right. It started last quarter.

Saion Mukherjee: Okay. Okay, thanks a lot.

Arun Sawhney: Okay, thanks.

Moderator: Thank you so much Mr. Mukherjee. And with this I would like to hand over back to Mr. Umang Khurana for any final comments and to the management team. Over to you.

Umang Khurana: Thank you everyone. Thank you for coming in. We look forward to speaking to you post the call.

Moderator: Thank you so much. Thank you all participants for joining in. With this we conclude the conference call for today. Wish you all a great evening ahead. You all can disconnect your line. Thank you so much.