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"Ranbaxy Laboratories Limited's Q3 CY-13 Results Conference Call"

October 29, 2013

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CHORUS CALL®

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Moderator: Ladies and gentlemen, good day and welcome to Ranbaxy Laboratories Limited's Q3 CY-13 Results Conference Call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and 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 at Ranbaxy Laboratories Ltd. Thank you. And over to you.

Umang Khurana: Hello, everyone and welcome to the Ranbaxy Post Results Conference Call for Q3 2013, that is the quarter from July to September 2013 and YTD September 30, 2013. Earlier, in the day the company issued a press release detailing the financial results for the quarter and YTD September. The press release and the presentation that the management will discuss with you will be uploaded on the company website for your reference. Today, on the call with us we have Mr. Arun Sawhney – CEO & Managing Director of Ranbaxy, who will be the first speaker, he will discuss the highlights of the company performance, Mr. Rajiv Gulati – President, Global Pharmaceutical Business who will talk about the business performance during the quarter. Mr. Indrajit Banerjee – CFO and President of Ranbaxy will be the next speaker and he will detail the financial performance of the company for the quarter. Post the presentations we will be happy to take your questions. We have budgeted an hour and will close at 6 IST time 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 Q3 2013 financial results of Ranbaxy. Sales during the quarter were Rs.27.5 billion. Sales during the quarter were impacted by contributions of sales from exclusivity opportunities and post exclusivity contribution in Q3 2012 primarily from Atorvastatin. Sales excluding FTF and AGs continued to grow over the corresponding quarter last year. The company continued to focus on Branded business in the emerging market as well as strengthen its presence in the USA market. EBITDA margin in the quarter were 7%. Focus on performance of key products and measures to control costs continued during the quarter.

The company received approval from Central Drugs Standard Control Organization, Government of India to manufacture and market Synriam™ in India for the treatment of uncomplicated malaria in adults caused by plasmodium vivax parasite. During 2012 on the World Malaria Day, Ranbaxy had launched India's first new drug Synriam™ for treatment of uncomplicated plasmodium falciparum malaria in India. Since its launch Synriam has successfully treated around 1 million patients.

Absorica™, the novel drug launched by Ranbaxy in the end of last year continued its growth with 19% market share in the US. Relative to the previous quarter developed market sales have been impacted by the absence of continued contribution from post exclusivity opportunities as compared to the corresponding quarter last year.

Branded sales including OTC were Rs.14.7 billion while Generic sales including API were Rs.12.8 billion.

Primary sales in India were impacted by pricing policy, slow growth of anti-infective and trade challenges.

Business performance in the markets of East Europe and CIS and APAC were strong with 24% and 22% growth respectively. West Europe on the other hand was adversely affected by difficult market conditions.

US FDA on 16th of September 2013 imposed import alert on Ranbaxy Mohali Plant post their inspection in late 2012. The US FDA also advised that the Mohali Plant will be subject to certain provisions of the Consent Decree (CD) filed in late 2012 for its Paonta Sahib and Dewas plants in India. The company made further improvements at its Mohali facility since the last inspection in 2012, and addressed the issue raised during the inspection. The resumption of product submissions and supplies from Mohali will remain top priority for the company.

The company in early October 2013 received Establishment Inspection Report (EIR) for the Ohm plant from the US FDA wherein the regulator has accepted our responses to their observations. The plant was inspected by the US FDA in December 2012.

With regards to the Consent Decree related to Dewas and Paonta Sahib facilities that the company signed in January 2012, the progress is as per plan.

With regards to other significant developments during the quarter, during the quarter 3 ANDAs were filed for the USA market, the total number of filings made by the company during the quarter were 43 while the company also received 40 approvals for dosage forms during the quarter.

The company received the Paragraph IV Certification notice from Watson Laboratories of an ANDA to the US FDA for generic version of Absorica™. Ranbaxy and its partner Cipher intend to vigorously defend Absorica's intellectual property rights and pursue all available legal options in response to the Paragraph IV notice letter and FDA approval of the ANDA shall then be governed by Hatch-Waxman Act.

On the financial side, with respect to the derivatives position, the total leveraged position at the end of Q3 2013 was $763 million, down from $860 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 quarter. Net debt for the quarter was $741 million. The company expects to achieve sales of Rs.130-135 billion for the 15-months period ending 31st March 2014. This does not consider any sales accruing from FTF which shall be accounted for as they materialize.

The company has adopted the financial year for its closing of accounts; instead of January to December, now Ranbaxy will report accounts from April to March. In order to make the change the current reporting year will be for a period of 15 months ending 31st March 2014. This will also align the account reporting to the tax reporting period.

The hybrid business model between Ranbaxy and Daiichi Sankyo continues on several fronts. The product selection procedure for launch in Japan has been finalized. The two companies are also exploring supply chain collaborations to reduce costs for both the companies. With this I request Rajiv to take us through the business performance in different regions. Over to you, Rajiv.

Rajiv Gulati: Thank you, Arun. Good afternoon, everyone. Arun has already shared with you that the total sales for the quarter were Rs.27.5 billion. The overall sales growth is not comparable for two reasons. One is that this time last year we had significant post exclusivity sales of Atorvastatin in the USA; and second is something that has impacted everyone in India, the new pricing policy as well as the trade concerns destocking in view of the forthcoming policy introduction in prices, and the entire industry still at the moment is in a low single-digit, we are in line with that.

Going to each region, in North America our sales were Rs.8.8 billion, again not comparable because of large post exclusivity contributions as discussed earlier, and USA business sales for the quarter were Rs.7.9 billion up from Rs.7.7 for the preceding quarter. Absorica™ continues to do well and our prescription market share in United States for Absorica™ stands currently at 19%. In India, the sales were Rs.5.7 billion during the quarter, and as already mentioned with the newly implemented pricing policy and also related trade challenges which we faced. East Europe and CIS have performed extremely well and we continue to witness growth and maintain leadership position in the represented markets of Romania and Russia. The sales in the region were Rs.4.8 billion which in the local currency level is a growth of 24% over the corresponding quarter last year. The sales in West Europe were Rs.2 billion for the quarter, and company in West Europe continues to focus on improving its profitability, and if we look at the three quarters of 2013 there is an improvement quarter-by-quarter as far as West Europe is concerned. In Asia-Pacific and Latam, the region has a sale of Rs.2.3 billion for the quarter which is a 14% growth over the same quarter last year. There are two specific countries that is Brazil as well as Australia which are performing extremely well in the Asia-Pacific giving a boost to the sales growth.

As far as Africa and Middle East are concerned the sale for the quarter were Rs.2.5 billion, and if we take away the tender quantity; we have special tender business units in Africa for ARV, the region gives 31% growth over the corresponding quarter. So that is our focus in the base sales in that region also going forward. Our investment in the manufacturing facilities in Morocco, Egypt and Nigeria continue. The sales for API and others were Rs.1.5 billion for the quarter. And with that I will hand over to our CFO and President – Mr. Indrajit Banerjee to take us through the financials.

Indrajit Banerjee: Thank you, Rajiv and good day to everyone on the call. I will take you through the salient highlights of the results. Sales for Q3 as mentioned earlier was Rs.27,502 million when compared to Rs.26,685 million in the previous year. Sales in the Branded business including in USA, Eastern Europe and CIS countries APAC and Africa grew well. Sales for the YTD to September was Rs.77,452 million which is lower than the corresponding period mainly due to the higher FTF sales that was recorded in the previous year. Base business grew by over 10% in rupee terms during the year to September. Other operating income was Rs.515 million in the quarter while on YTD basis it was Rs.1,624 million. Material consumption was Rs.10,275 million in Q3 2013 and Rs.28,575 million in the cumulative for the year to September. Stronger performance in the Branded market including stronger sales of Absorica™ in the USA helped reduce material consumption as a percentage to sale. Excluding FTF consumption was at about 37% to sales which is lower than the corresponding quarter of the previous year.

Employee costs were at Rs.5,316 million in the quarter against Rs.4,733 million in the corresponding quarter of the previous year. For YTD September 2013 employee costs were at Rs.15,310 million against Rs.14,351 million in the cumulative September 2012 previous year. Growth over the corresponding quarter is mainly on account of normal salary revisions.

Depreciation, amortization and impairment for the quarter was higher at Rs.1,334 million versus Rs.816 million in the corresponding quarter of the previous year. Now, this is mainly on account of an exceptional impairment loss of Rs.485 million that we have taken on in this quarter with regard to our vaccine plant at Bangalore, which is being impaired owing to prevalent market conditions.

Other operating expenses including claims paid amounted to Rs.10,487 million in the quarter as against Rs.28,724 million rupees cumulative till September which when compared to the percentage of sales without FTF was about 37-38% in the quarter and till September it was in that range in the current year. This includes higher CD related remediation expenses and promotional costs connected with the Branded business incurred during the quarter and during the year till September 2013.

Other income was lower at Rs.261 million in the quarter vs. Rs.661 million in the corresponding quarter of the previous year mainly because of interest income on lower deposit levels that we now have. For the same reason interest and other income for YTD September 2013 was down to Rs.1,239 million from Rs.1,965 million in the corresponding quarter of the previous year.

Finance costs for the quarter were higher at Rs.1,115 million vs. income of Rs.156 million in the corresponding quarter mainly because of exchange loss. FOREX loss as you know is apportioned to financing cost in accordance with the current accounting standards, and this foreign exchange loss in the current quarter against foreign exchange gain in the corresponding quarter of the previous year. For the same reason finance cost for YTD September 2013 were higher at Rs.3,231 million vs. Rs.1,679 million in the corresponding quarter of the previous year.

The closing dollar/ rupee exchange rate was at 62.66 to a dollar as on 30th September 2013 vs. 59.31 as at the end of 30th June 2013. For the valuation of derivatives and foreign currency loans these rates were taken and that has occasioned the loss on foreign exchange which I will come to in a minute. Average dollar/ rupee for the quarter were 62.17 vs. 55.86 in the preceding quarter. Foreign exchange loss of Rs.3,022 million that is shown below the EBITDA line under the exceptional item is mainly the impact of foreign exchange on outstanding derivatives. There is also a foreign exchange gain of Rs.54 million in the current quarter and a loss of Rs.931 million cumulative for the September quarter recorded above the EBITDA line mainly due to trade transactions and on borrowings. Tax for the current quarter and for the year-to-date to September 2013 arises mainly on account of tax that is being paid by our profitable entities in USA, Romania and other entities outside India, and this is a very unique position because although we have losses in India in the local entity we have profits in the overseas entities.

Exceptional items during the quarter includes stock write-off in respect of stocks at Mohali and certain other parts for related matters amounting to Rs.695 million which we have recorded as an exceptional item in the reported statement. Exceptional items for the year-to-date September 2013 also includes impairment on account of our French subsidiary which we took in the previous quarter in Q2.

EBITDA for the quarter was recorded at Rs.1,992 million and Rs.5,537 million for the year-to-date to September, current quarter was up to about 7% of sales. While explaining EBITDA I must also mention of the higher-than-usual remediation expenses that we have incurred in the second quarter and we have also taken a provision for a contractual payment in relation to a legal settlement of Rs.330 million, an exceptional item there, it is an item of expense which we have to take on, it is a part of our normal business but it is an exceptional item which has come in. Adjusting for these two items the EBITDA margin would be about 11-12% in the current quarter. With that I would like to hand it back to Umang.

Umang Khurana: We will now have the floor open for questions please.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from CIMB. Please go ahead.

Prakash Agarwal: On the US business especially if we see the sequential numbers Rs.7.7 billion and Rs.7.9 despite having huge growth in Absorica™ where we have gained lot of market share could you explain what are we missing here because I would understand the base business as well as Absorica™ might have grown much higher even sequentially?

Rajiv Gulati: One reason why we see different numbers in different quarters is we have seen accounting change in the United States. We should clarify that Absorica's sale itself is stated differently for the past three quarters starting this quarter. There were certain incentives to patients who could not pay which has been taken off from sales instead of booking as an expense. So that change has occurred. That is one big reason which has altered the number for this quarter. This number would have looked much higher otherwise if we had continued reporting this as we were till last quarter.

Prakash Agarwal: Are you saying for the last three quarters you have taken one-time adjustment in this quarter?

Indrajit Banerjee: In a way, yes. We have taken an adjustment in the quarter by rearranging the sales numbers for the previous quarter. So the impact that you see in the current quarter is essentially the impact of the current quarter itself but the sales being higher in the present quarter so when we relate one quarter to the other the impact in the present quarter would be much higher on account of this reason than in the previous quarter.

Prakash Agarwal: If I look it the other way round the base business would have grown or sequentially flat?

Rajiv Gulati: The top line would have appeared that much higher in the current quarter.

Prakash Agarwal: I understand. I am saying excluding the Absorica™ if I look at the base business would that look sequentially flat or that would see growth?

Rajiv Gulati: Sequentially, the base business is flat at the moment.

Prakash Agarwal: The second question is on the facilities basically. Now with higher dependence on Ohm there was a news article where it said that you are looking at acquiring facilities. So the question is basically even if we acquire we have to file it and then we are in the waiting game of 2-3 years. Is that understanding correct?

Arun Sawhney: I think at the moment for our business plans we are quite well placed with the existing infrastructure. We have the capacity to grow our business.

Prakash Agarwal: That would be where?

Arun Sawhney: At Ohm we have the capacity to grow our business as planned.

Prakash Agarwal: My understanding was it was almost nearing full capacity, is that incorrect?

Arun Sawhney: Like I said we have capacity distributed between various Ranbaxy manufacturing plants that are sufficient to address our business plans for the time being.

Moderator: The next question is from the line of Mr. Manish Jain from Axis Holdings. Please go ahead.

Manish Jain: Indrajit, I just wanted insights on what is the CAPEX plan for the 15 months? What is likely to be the working capital in terms of improvement status quo or adverse impact on working capital? And lastly the investment in remediation?

Indrajit Banerjee: We do not give CAPEX guidance. We have made investment in growth and we will continue to invest in growth and we have several projects up and running and we are investing in that.

So there is nothing exceptional to report at this stage from the trends that we have had. We continue to work on working capital and improve the capital efficiency of our operations. Again, nothing exceptional to report from what we had seen a trend right now. Your third question is on the remediation expenses. Manish, you just have to excuse us, we would not be able to give you an exact number that we have spent but as I mentioned in my comments that if you adjust for the CD remediation itself against that reported figure of 7% EBITDA it does go up to somewhere like 11-12% as I said. That has two big adjustments in it. One is the remediation expenses and other is the contractual expense of about Rs.330 million which I mentioned. So I guess you can count that, you will get an indication of how much we are spending, but excuse us from stating a particular number at this stage.

Moderator: The next question is from the line of Mr. Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: The first question is on the India business. Last time Mr. Sawhney, you mentioned that the impact of pricing policy was about 8% of sales. In this quarter what will be your guess, how much would you have booked in this quarter, would it be half, less than half, how much pricing policy impact is built in?

Rajiv Gulati: This is an unusual quarter. There is a partial impact of price reduction and understated sales because of the trade-related issues. There are some products with pricing still to reduce because the NPPA has been releasing the new ceiling price sequentially and they are flowing into the market. To answer your question is that the partial impact, I cannot give you the exact percentage at the moment.

Anubhav Agarwal: Just one more question on the Ohm's Lab. EIR with us now, was this the only thing which was blocking approval from Ohm's Lab and should the path be clear now for placing approvals from Ohm's Lab?

Arun Sawhney: There was nothing ever blocking approvals from Ohm's Lab in any case.

Anubhav Agarwal: This question comes because we have not seen any approvals post-Lipitor® from Ohm's Lab?

Arun Sawhney: Approvals will all depend upon the filings and the time it takes the regulatory agency to approve the filings. But there was just nothing stopping from any submissions from Ohm getting approved.

Anubhav Agarwal: The guidance you have given of Rs.130-135 billion for 15 months, this netting over effect, Indrajit, this is almost like the amount that you have reported this quarter 94 crores, that is almost 3% of sales of this quarter, in the next two quarters which you are including guidance how much is the amount that we bid in, something around that same range, 3% is just going from sales just because of this new accounting policy?

Indrajit Banerjee: It has the same effect in the subsequent quarters as it has in the current quarter.

Anubhav Agarwal: Your note says that in the June quarter it was Rs.49 crore number which was netted off the sales and then the September quarter it is Rs.94 crore number. So we should build in something like what is being bagged on in the September quarter.

Indrajit Banerjee: It will be a function of sales of Absorica™.

Anubhav Agarwal: This accounting change policy entirely only on Absorica™?

Indrajit Banerjee: Yes.

Moderator: Thank you. The next question is from the line of Ranjit Kapadia from Centrum Broking Capital. Please go ahead.

Ranjit Kapadia: My question relates to the stock write off of Rs.695 million at Mohali. Is it pertaining to Atorvastatin only or other stock write-offs also? And second question is this contractual payment of Rs.330 million for this settlement of claims, if you can explain it a little bit further?

Indrajit Banerjee: It's all stocks at Mohali. That is what we can say at this stage. I do not think it is right for us to say for which product. We have not said that. We will not be able to say for which product, it is not right. Your second question, it is a legal settlement related matter in connection with the normal ongoing business in USA.

Moderator: Thank you. The next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Just one, I wanted to understand, your net debt is $741 million, how much of this is dollar-denominated?

Indrajit Banerjee: It is about half-half roughly, but that is not the full picture, for quite a bit of it we have sort of converted the dollar liability into rupee liability. I think for all practical purposes it is fair to assume that something like 15-20% of that would be exposed to dollar, and the rest of it is not exposed to dollars, it is effectively rupee.

Sonal Gupta: The second thing I wanted to ask was in terms of the outlook, what is the outlook on European business because the sales seems to be declining and that was one of the major territories which was being serviced by I guess Dewas and Paonta, so how do we see this going forward? So while we might be trying to make the operations more profitable at the European level I mean taking into account the fact that your manufacturing facilities might have reduced offtake, how do we really look at it and what is really the plan for Dewas and Paonta in the interim and any timelines with regards to the same?

Rajiv Gulati: We export to 100 countries, and in Western Europe the focus is on profitability, and in most of the countries the profitability is significantly improving and even those countries which are making losses sequentially for the last 3 quarters the losses have been coming down and we are very confident the entire Western Europe will be profitable very soon.

Sonal Gupta: But just in terms of out of your whole gamut of countries of your major geographies, which are the countries where you think your profitability is at a reasonably good level and that is where at least you would like to at least be at a basic level or in that sense? I just want to understand as to which are the markets that you think are still okay and while I think there are a lot of other issues which are driving down the overall profitability?

Rajiv Gulati: Each and every country is improving, there is no question about that in Western Europe.

Sonal Gupta: No, I am just looking at on a geography perspective, I understand Europe is a drag…

Rajiv Gulati: On a geography perspective we shared numbers of each geography with you. If you take East Europe and CIS countries there you saw very healthy and robust growth. I also mentioned Australia, where if you look at we have been launching new products; Rosuvastatin is the most recent launch which is very successful and Australia this year would be more than double of what it was two years ago. And Brazil has very, very significant growth. So, parts in Latin America, in CIS, in Eastern Europe, in Asia Pacific, lots of countries doing well. I think Arun and Indrajit also mentioned the Branded business which is our major focus, that proportion is increasing and that is certainly more profitable for us.

Moderator: Thank you. The next question is from the line of Bino Pathiparampil from IIFL. Please go ahead.

Bino Pathiparampil: A couple of questions; one on Absorica™, have we seen already the first bout of market share gains or are we still seeing the same momentum of further gaining market share?

Rajiv Gulati: The market share has gone up for 14 straight months. I will not say anything more than that, you can figure it up.

Bino Pathiparampil: And how is Pristiq® doing, is it picking up well or still below your expectations?

Rajiv Gulati: Our Desvenlafaxine sale is certainly below expectation. We have strategies in place to increase its rate of growth and make it significant.

Bino Pathiparampil: And one final question. Can I request some comments from you regarding the situation which led to this import alert in Mohali, because you have been going through this kind of issues for 5 years as an organization and normally everyone would expect you to be doubly or triply cautious about these things at least in the new facility. So despite that going into an import alert situation show some kind of slackness at some level of the management, have you investigated further into it and what action are you taking about it?

Arun Sawhney: Clearly, a lot more is expected of Ranbaxy and we have strengthened our quality and manufacturing. systems at Mohali. The development at Mohali is unfortunate, we recognize that, and we have to do a lot more than what we had earlier done, a clear recognition of the fact.

Moderator: Thank you. The next question is from the line of Nitin Agarwal from IDFC. Please go ahead.

Nitin: Mr. Banerjee, on the issue you mentioned that if you adjust for the remediation cost and these Rs.33 crores claims expenses, we are talking about 11-12% EBITDA margins, if I remember last time you were talking about 2% sort of impact on the remediation measures, but if you are making the adjustment talking about 3-4% cost of the remediation measures as a percentage of sales. So has that gone up materially in this quarter? So is this the new level for the remediation cost from here on or how should we look at it?

Indrajit Banerjee: It is high and that has impacted the profitability for the quarter. Whether it is going to remain at this rate, I think it will fluctuate, it has been high this quarter and as we had said that as time goes by and as we go through the process then the expenses will come down later, but as of now, this quarter has been high.

Nitin: But how does one look at it? How long do you see this cost would continue in the base in terms of in these numbers like a year-and-a-half, two years, three years? Is there a broad time spectrum that one should really look at?

Arun Sawhney: We had earlier said that you should see the tapering down from 2015 onwards.

Nitin: Secondly, is the Mohali facility being utilized for any geography right now?

Arun Sawhney: I think there are other countries where the approvals have begun to come through and those countries are getting supplies from Mohali.

Nitin: From a strategy perspective, this import alert in Mohali, how does it change things for you from a USA business perspective?

Arun Sawhney: We have strategies in place to ensure that our growth plan for the USA does not get impacted.

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

Manoj Garg: Just want to understand on Absorica™, if you look at our IMS number and they have been reporting about $10-11 million kind of monthly sales in the US and when we are looking about the adjustment which we have done for the quarter, which is around Rs.950 million works out to be around $50-60 million for a quarter. So does it means that our Absorica sales is in the range of around $15-20 million a quarter adjusting to this whatever patient benefit and all?

Indrajit Banerjee: I think on the numbers and all that it will be best if you can have a discussion with Umang later and I think that will be the best way to go about it.

Rajiv Gulati: These numbers do not look right, so it would be difficult to answer, you can clarify with Umang.

Manoj Garg: The second question is like whatever the royalty which we are paying to Cipher, in which line item we are showing, is it a part of that contractual expenses or we are showing in a separate line item?

Rajiv Gulati: It is adjusted against the sales, so it does not show up at all.

Manoj Garg: And third is just would like to understand do we have any pending 483 at Paonta plant also for the API?

Arun Sawhney: We have responded to all the 483s, there is no pending response to be given for 483.

Manoj Garg: And we are yet to get the clearance from the FDA on that?

Arun Sawhney: Yes, the matter is with the US FDA. We have responded to all the 483, and that is where the matter stands.

Manoj Garg: In the past we have been maintaining about our confidence to monetize exclusivity and even we have indicated that probably we are looking for the site transfer also. So just want to understand what is the current status about Diovan® and how much time it can take more because now we have probably taken out our guidance also for the FTF for the next six months?

Arun Sawhney: No, we have not taken out the guidance, we are telling that as the exclusivity approval come it will materialize. So, we will launch Valsartan upon approval from the FDA.

Manoj Garg: So as of now there is no clarity in terms of timeline on that?

Arun Sawhney: I think at the moment the only clarity we can give is we will launch upon approval.

Manoj Garg: And Mr. Banerjee, this is for you. If I look at in terms of other expenses I think for last 3-4 quarters consistently it has been moving up from on an average of 29-30% kind of range to now 36-37% kind of range. So is it fair to assume that this incremental 5-6% kind of increases which we have seen on the other expense line item is purely related to CD-related cost or there is some other element also?

Indrajit Banerjee: CD remediation related cost is very much there, but it fluctuates also because of promotional expenses in our sales and things like that, but you are right, in terms of the big elements there is CD remediation related costs.

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

Sameer Baisiwala: Actually just taking from the previous speaker, I was wondering that the earlier guidance Rs.120 billion plus which you had given at the beginning of the year had included exclusivities and this guidance you have chosen to exclude it. So is there some assessment of whether you will or will not be able to get the exclusivity until March of 2014 or is it just a side action that you have taken?

Arun Sawhney: It is action we have taken so that we are more certain about the business that is other than the exclusivity, and that the exclusivity business run as we receive the approvals.

Sameer Baisiwala: So we should not read too much into it, I mean that is the point…?

Arun Sawhney: Yes.

Sameer Baisiwala: And the second thing is on operating margins. Indrajit, just to understand; the previous quarter, the base business margin that you had indicated was 8% was pre-remediation adjustment. So 7% this quarter and 8% previous quarter are apple-to-apple? Is that the right way of looking at?

Indrajit Banerjee: That is before the exceptional, right. So if you do it before the exceptional, what you have done is right. If you do it after the exceptional then I have stated that number.

Sameer Baisiwala: So that means the only exceptional on an apple-to-apple that we should account for is Rs.330 million settlement cost, that means we are almost talking of flattish operating margins sequentially speaking?

Indrajit Banerjee: We used to ignore the remediation expenses, yes. But if you take the remediation expenses into account then….

Sameer Baisiwala: I am removing it simply because you said on quarterly basis it would be volatile and second, this is going to continue all the way till 2015. Okay, that is fine.

Moderator: Thank you. The next question is from the line of Abhishek Singhal from Macquarie. Please go ahead.

Abhishek Singhal: Sir, I just wanted to get some clarity because if I look at the last quarter, the absolute EBITDA was close to around Rs.260 crores and that translated to somewhere around 9% plus EBITDA margin where you have indicated that the remediation cost is close to around $15 million a quarter and was pretty much at its peak. Now that was including that $15 million cost already in out there. Now if I look at this current quarter, you have a margin of around 7%. What I am not able to reconcile is that has the remediation cost this quarter for translating into an 11-12% gone as high as 6-7%? Is there a one-off in that remediation cost? Because my understanding, and correct me if I am wrong was around $15 million to a quarter that translates to around $60 million for the full year that was translating to around 3% or so, but that was already included in the margin that you were reporting in the second quarter of around Rs.260 crores or so, that was somewhere around 9%. So what I am not able to reconcile is that if you are going from 9% to around 11-12% that you are talking about; that translates to almost like 400-500 basis points of extra almost like Rs.70-80 crores over the $15 million that you were doing this quarter. Can you just throw some light on that?

Indrajit Banerjee: Abhishek, as I said right at the beginning it is difficult for us to say that number of the expense. That is also one other items which is the contractual payment item. You also need to take that into account when you try to compare this quarter with the previous. As I mentioned there were this exceptional contractual payment of Rs.330 million, so you need to take also into account.

Moderator: Thank you. The next question is from the line of Krishna Prasad from Kotak. Please go ahead.

Krishna Prasad: Just on this claims and contractual expense of Rs.332 million because if I look at the previous quarters as well, you seem to have some numbers on account of this contractual expense. So if you could just explain what is this on account of, is this relating to a specific product, is this relating to any sort of distribution-related activity? So if you could just clarify around that because is it really extraordinary impact sense or should we just expect some numbers to keep coming through for future quarters as well?

Indrajit Banerjee: The one that you see in this quarter as I mentioned Rs.330 million that is a one-time settlement. I would not be able to give you the details, it is a litigation related issue. So that is an exceptional item. But apart from that in other quarters we may have some items related to normal business related matters, so there is nothing exceptional in the previous quarter, but there is an exceptional item in this current quarter.

Krishna Prasad: And just my second question would be on the tapering of remediation expenses. If I remember last time you had indicated that towards the end of CY14 we could possibly start to see the remediation cost start to move down. Now, given the import alert in Mohali, would you think that timeline has got stretched or by how much has it got stretched, if you could just share some more information on that?

Arun Sawhney: I do not think we have granular assessment done by now but overall I think by 2015 we should see tapering off of the remediation of expenses, we are beginning to see that.

Krishna Prasad: But just the overall quantum of that expense, is that going to move up now until that point or has it remained somewhat constant? Taking out this quarter-on-quarter volatility, but if you were to just overall look at that expense, has it gone up post your import alert from Mohali?

Arun Sawhney: We have still to make a more granular assessment of it, probably in the next call we should be able to give a better view on this.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: A follow-up on some of the previous questions. One is what is your assessment as far as timelines of resolution are concerned? I can understand that there are quite a few variables which you will not have handle on, the fact that you think that the remediation cost will continue to lift by 2015; is that an assessment also which coincides with actually final resolution of Mohali and therefore then remediation cost coming down? Would that be a fair assessment?

Arun Sawhney: Like I said, we would wait till one more quarter before we can make a little more granular assessment and then come back to you. But on a very, very broad level we should see the tapering off beginning in 2015.

Anmol Ganjoo: Second question is that we had some high quality filings from Mohali. Should we able to salvage all of those or there are plan-Bs with respect to shifting them to other facilities?

Arun Sawhney: I have no reason to believe that we will lose value from the filings.

Anmol Ganjoo: And my last question is on the domestic market. Have you finally reached some kind of a settlement with the stockists as on to what the quantum of trade margins will be?

Rajiv Gulati: This is a matter which continues to be discussed. We cannot comment on that. The industry, the government and the trade, all are talking to each other. I am very sure that within a few days it will be settled.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, only one last question can be taken. Next question will be from the line of Arpit Kapoor from UTI Mutual Fund. Please go ahead.

Arpit Kapoor: My question is pertaining to the OTC business of the domestic part. So that has also been flat, that has shown a growth of 5%. So any insights as to why that part of the business has also not grown?

Rajiv Gulati: There are seasonal variations and in fact our OTC business also has been impacted by this trade related issues definitely, but all in all, YTD if you see absolutely on track, our brands are very strong, we have a high market share and we continue to grow sequentially.

Arpit Kapoor: So were there any products under NLEM which were there in the OTC because my understanding was that…?

Rajiv Gulati: No, no, it is not under NLEM. The stock if you look at the entire pharmaceutical industry growth for the quarter it is on a very low single digit. So all companies, all products have been impacted. Not only NLEM products.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. Umang Khurana. Over to you.

Umang Khurana: Thank you, everyone, thank you for joining the call. We are happy to take your calls right after this. Thank you.

Moderator: Thank you. On behalf of Ranbaxy Laboratories Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.