"Lupin Limited Q1 FY-'16 Earning Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Lupin Limited Q1 FY-'16 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note this conference is being recorded. I would now like to hand the conference over to Dr. D B Gupta – Chairman, Lupin Limited. Thank you and over to you sir.

Dr. D B Gupta: Hello! Dear Friends, it is my pleasure to invite you for Q1 Earnings Call. There is definitely a situation where we would not have been in this performance level, but we do in totality and particularly we see a company like Gavis who has everything.

Management: We will hand over to Ramesh for the Results.

Ramesh Swaminathan: Good Morning, Friends. This quarter in fact for the first time in several years we are faced with situation where our performance has been lower than the same quarter previous year; it is actually 6% lower but if you look at in fact the quarter-on-quarter performance it is 1% higher. Performance across various geographies remain pretty strong except for USA; USA as you would know, we have been stymied by lack of approvals, and, of course, on the brands front we had in fact the situation where Suprax went Generic and it is also off season for Cephalosporin products. But if you look at other regions, Japan, particularly has done fairly well; in fact, we continue to grow year-on-year at 6% and quarter-on-quarter at 10%. The India region which is the second most important region for us continues to do very well; 16% growth year-on-year and 33% growth quarter-on-quarter.

Friends, whilst speaking to you yesterday a lot of people spoke about the fact that the EBITDA margins have risen from 26% last quarter to 29% and you were asking me this question as to whether it is going to be sustainable. This 29% growth is because of the fact that FX gains of Rs.70 crores were reflected in this quarter in terms of the swing… Yes, Rs.33 crores this quarter and Rs.37 crores of loss the previous quarter, and we had MEIS of about Rs.17 crores, that is total Rs.86 crores which came in to actually take up the EBITDA from 29%, but if you look at the full year we believe that it will be in the range of about 28 to 30%. This quarter of course we have the big story of Gavis. With this, we will open the floor for discussions on both the Performance front as well as the Acquisitions.

Vinita Gupta: I will just add a little bit more giving some color on the Gavis acquisition: We are obviously very excited about the acquisition of the company. It complements Lupin extremely well. We had looked at multiple opportunities and concluded that this was the best company from the perspective of the technology platforms that they had that complements Lupin's capabilities.

So on the financial front; I know a number of you have questions on the valuation. We have done our independent valuation and really convinced about the growth prospects of the

business, it is a very profitable business, last year it did close to $100 million in revenues, 36% EBITDA, we expect the business to grow three-fold in the next 3-years and profitability to hopefully improve from 36% EBITDA.

In terms of pipeline, the acquisition puts us in a very-very strong position in the US, mean the combined pipeline between us and Gavis is 165 products filed to the FDA which makes us the 5th largest company by pipeline filed to the FDA. So tremendous pipeline, and as you can see in the current year in the last quarter we have seen slowing from a growth perspective because of the FDA approval slow down, so we need more shots on goal, we need more products where we have a better chance of getting approvals and a better chance to launch products on a consistent basis to grow our business. So very-very pleased with the depth and the breadth of pipeline that they add to the acquisition.

Third element that we really like in the acquisition was the capabilities in. The company has capabilities in Controlled Substances, have filed close to 20-products they have capabilities in Dermatology Products, they filed over 20-products, they have strong capabilities in GI Products, they are a market leader in a number of Colonoscopy Products. So the company adds a good number of niche products end pipeline to Lupin's pipeline, and as we have mentioned to you in the past our plans were to get into a valve of pipeline into more and more Complex Generics, this acquisition accelerates our entry into Complex Generics like Controlled Substances as well as Dermatology Products. They also have capabilities in other areas like MDI, Nasal Sprays, DPIs that we will integrate with our Coral Springs, our Florida facility where we have made a tremendous investment both in terms of people as well as infrastructure to build an Inhalation pipeline

The last thing I would like to say is this is the first manufacturing facility that Lupin will have in the US through the acquisition of Gavis. And so far we have been missing a participation in the government channel, that is a channel of the market that we have not been able to service because we cannot supply products out of India to the government channel in the US as of yet. So we are very pleased that this will give us a potential of adding the government channel to our customer mix in the US, and, of course, also Controlled Substances that need to be manufactured in the US.

Last but not the least, I will say that we are very-very pleased with the cultural fit between the two organizations, the chemistry between the people in the two organizations, and more importantly, the culture from an R&D productivity standpoint the company has built organically, so very similar to Lupin in many ways developing products in-house, developing capabilities in-house, churning out these and getting approvals, launching products as well as a strong track record of FDA compliance, they have gone through multiple inspections over the last many years, the last inspection was in January with no 483. So a very strong track record of compliance. So we are very-very pleased with the acquisition and we will be happy to answer any questions on that front.

I will now hand it over to Nilesh to take you through the status of our last audit in Goa.

Nilesh Gupta: Good Morning. Alpesh mentioned that a lot of you had questions on the Goa audits, so I thought we should address that upfront. As you have heard, US FDA recently inspected our Goa facility, they sighted 9 observations. The observations I want to clarify, none of these were in the direction of data integrity for the like, there was routine GMP issues, issues like inadequacy and adherence to SOPs for example or questioning whether the periodicity of cleaning equipment, stuff like that some questions on warehouse management, for example, we have already complied with observations that they had and responded to the FDA and you know this we have prided ourselves with compliance track record, we have had 6 audits in the last 6-months. So while we are not happy that these observations are there, quality is very important to us, and we believe that we will be able to address the concerns of the FDA adequately.

I think we did not introduce the group. So KKS may be you just introduce to the group and then open it up to Q&A.

Dr. Kamal K. Sharma: Welcome Everybody. It is my pleasure to introduce you to the team here; I have Nilesh who just spoke to you, you have Mr. Sunil Makharia you are all familiar with him, Rajiv Pillai, Alpesh Dalal is here with us, then we have Ramesh spoke to you anyway, Vinita has spoken to you, along with them I have Vinod who heads our AAMLA region and Naresh who heads API Plus Group and Shakti Chakraborty who is In-charge, Head of our India business. So we will open the floor for question-answers now. So please you can ask your questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Balaji Prasad from Barclays. Please go ahead.

Balaji Prasad: Though I like to start with my first question on Goa's 483s, from what we have seen from you and heard from you until now they do not look ominous, but I would like to get your take on the repeated nature of this. We saw a 483s in Pithampur earlier this year. Can you help us understand how your plant personnel could miss on basic things like free movement across departments where there shall have been none. I thought they would be more sensitive to this after Pithampur and follow diligently?

Nilesh Gupta: The thing is that there is a lot of interpretation, there is obviously FDA guidances which we follow completely and there is other stuff which is sometimes left open to interpretation and that is where the differences lie, so while the practice may be okay with a lot of previous inspections and a lot of auditors in the past it may be okay with other regulatory authorities as well but some other auditor may come and question it and really that is the way that we have been seeing the 483 that we are getting, whether it was Pithampur which was then addressed and we have seen approvals after while the audit in Goa was going on we had an approval come in, in Goa as well. So these will come. I think about 7-8-years ago FDA upped their

standards, they have been doing it since and that process continues, I think companies have to keep ahead of those. So these observations will come. Very clearly we have had audits where right at the start of the inspection, the FDA inspector said very clearly that "I do not mean this any other way but wherever we go we do give 483s." So that is a reality of life. So you are going to get 483s. Like you said it is the nature of the 483s.

Balaji Prasad: So if kind of understood what you are saying, you are saying that it is very subjective and it is sometimes a moving goal post?

Vinita Gupta: That is correct.

Balaji Prasad: On that, would you have any update on the Pithampur 483s still now — have you received any response from the FDA?

Nilesh Gupta: I am not sure but I think we have had some approvals come thereafter. So I think the compliance status is fine.

Vinita Gupta: The Bimatoprost was approved from Pithampur and we launched it in the US.

Balaji Prasad: On Gavis, when I look at what you have paid for, clearly I think that is probably one of the questions you have gotten most, you seem to have paid for Gavis future pipeline. Can we get a sense of the filing trajectory for now of the 65 products under development, what kind of approval rate or filing rates would you see, what approval expectations do you have? And maybe some thoughts on senior management and scientists retention?

Vinita Gupta: So the filed products obviously gives us a good number of opportunities in the near term in the next 3-years. In terms of the pipeline the 65 plus products we think that the company can file 20 plus products every year, they have the capacity within the team to file 20 plus products every year depending on the complexity of the products. So in the next 12-months we would expect close to 20 products filed… of course we need to get through closing and then take a bit of stock of the actual filing timelines, but as of now it looks like they would file 20 products. So I am looking at it our internal capacities to do anywhere from 25 to 30 filings with this acquisition. We get to the capabilities to doing 45 to 50 filings a year which would be obviously a substantial boost for our pipeline and our Generic business over the next couple of years. In terms of people, they have 100 people in R&D and another 150 people in manufacturing, commercialization, sales and general administration and majority of the people will be additive to us because we do not really have a oral solid dosage R&D or any manufacturing in the US. So we will bring whatever synergies we can from Lupin from our infrastructure in the US but for all practical purposes we will be retaining majority of the people.

Balaji Prasad: Could you just give a broad split of the areas where your future filings would lie from Gavis?

Vinita Gupta: So Controlled Substances definitely would be a priority. There are a number of products that are on our wish list that are on there, pipeline under development, products under development, Dermatology product, they have a good number of dermatology products in their pipeline, we have a good number of Dermatology products in our pipeline, we have filed along with the Q1 filing we have 9 filings in place, they have 22, so puts us in a very strong position, dermatology filings plus we have a number of products that we are developing and they are developing. So we expect in the next 18-months to have substantial Derm pipeline in place for the US. Then they have very good capabilities on the GI front, the large volume powders like the Colonoscopy products. So we will continue to do filings at that front as well.

Moderator: Thank you. The next question is from the line of Aditya Khemka from Ambit. Please go ahead.

Aditya Khemka: Vinita, just a question on Gavis again. So, the senior management of Gavis…do we have a contract with them as to how long they are going to stay with the company or is it just like a strategic fit where they are just going continue for an unforeseeable period?

Vinita Gupta: Yes, we have a very good strategic fit, we complement each other very well, the team is very happy that Lupin won the bid, it was a competitive process and there is very good chemistry between our management team and theirs, there have been a lot of interactions with the diligence on both sides, so we have already started dialogue on the key folks in the management team including the CEO, the founder, Veerappan, we have agreed a transition along with him. So with him on board with us for at least the first year, we expect to retain majority of the management team.

Aditya Khemka: The pipeline which you said of 22 Derma Products, 20-odd Controlled Substance Products, are these the number of filed products with the FDA which are currently pending approval?

Vinita Gupta: That is right.

Aditya Khemka: You also mentioned that Gavis have some capabilities in the Inhalation space, the MDI, DPI space. I understand we also have capabilities on that front. Can you just elaborate a little on how would Gavis add to our capabilities and would that really accelerate our filing timeline with the US on the key Inhalation Products?

Vinita Gupta: The progress they have made is more nasal sprays where we also have substantial expertise. They do not have a large team in relation right now and we are in the process of building up our team in Coral Springs. So from a timing perspective the deal is happening at a very good time and our attention would be to integrate the New Jersey Inhalation team with our Coral Springs team.

Nilesh Gupta: I think on the Inhalation side we have all the capabilities that we need already. So I think there we will take the lead even including the Gavis folks in terms of developments, but in areas like Controlled Substances, in Dermatology, GI that is where they can contribute very well.

Aditya Khemka: Last bit on the government channel access that this acquisition really gives you. So is the government channel access only again going to be restricted to the Controlled Substance product or is it a channel that you could probably tab for some of your current products that you market in the US, but were not able to sell to this channel because you do not really have access to it?

Vinita Gupta: Exactly, we have opportunities with the existing products that we will plan to take transfer into the facility and participate in the channel sooner rather than later.

Aditya Khemka: Ramesh, the EBITDA margin guidance of 28% to 30%, this include the other income which includes hedging gains, below EBITDA other income or would this be excluding the other income which includes hedging gains?

Ramesh Swaminathan: It includes the hedging gains and other FOREX impact.

Aditya Khemka: In which case, Ramesh, can you just elaborate on what sort of other income can we really anticipate for the year? So we have about Rs.75 crores which has come this quarter. Would that be the run rate going on for all the four quarters or…?

Ramesh Swaminathan: It is difficult to say that right because a lot of the FOREX gain is actually reflected there. It really depends on the volatility on the FOREX front.

Aditya Khemka: How much hedging loss or gain do we have above the EBITDA line item this quarter in other expenses or revenue or inventory?

Ramesh Swaminathan: The whole thing, the entire Rs.33 crores gain I spoke about is actually there at the EBITDA line.

Aditya Khemka: And in other income below the EBITDA, how much is it?

Ramesh Swaminathan: Rs.44 crores gain.

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

Anmol Ganju: I have a couple; so basically, just some further details on a question that previous participants asked. So, if we look at the acquisition and you just spoke about tripling of sales that implies a number of $300 million from Gavis sales?

Vinita Gupta: That is right.

Anmol Ganju: The incremental $200 million, are we looking to get this purely from Gavis portfolio, this does not include any synergy benefits like you spoke about in terms of using the various distribution channels like institution supplies and all, right?

Vinita Gupta: That is right.

Anmol Ganju: Basically, Vinita, my question is that post this, how would you look at the overall US landscape now for Lupin, what would Lupin growth trajectory be on a consolidated basis, how should we be thinking about it in terms of granularity as into what the consolidated portfolio from a US standpoint grows at, what Gavis grows at and what are the synergy benefits in terms of revenue growth for US?

Vinita Gupta: The pipeline as I mentioned is significant, right, so the acquisition when you have over 66 products that we add to our near-term pipeline, the big question is really wait approval through the FDA which is improving as well. Means so if I look at the outlook for the current year, the first quarter has been a challenge, the second quarter I see stayed a pretty similar level as the first quarter, 3rd quarter is where we start seeing an upswing in our business just through seasonality and also the launch of products like Azithromycin and Bupropion and a couple of other products that we are expecting and then we are hoping that we can get Esomeprazole approval before the end of this calendar year. So by Q4, we should see a substantial increase in revenues and growth due to Esomeprazole as well as Glumetza, Glumetza launches in February and we have a sole exclusivity for 6-months on Glumetza. So that will be a big upside for us in Q4. We hope to complete the Gavis acquisition between 2 to 3-months subject to regulatory approvals. So we are hoping that we can work at least half the year, so just gone by the past year I mean at least $25 million a quarter, if not more, based on the new product launches. So hopefully that gives you some idea on the current year.

Anmol Ganju: Yes, that is helpful. Just to follow up on that. Obviously, Gavis is something which obviously has great potential as you highlighted and the multiple that we are paying is obviously reflective of that. But you would conceive that from a US valuation standpoint a lot of its assets are getting expensive. So, if we were to kind of think about the inorganic part of our strategy to our growth, what are some of the internal benchmarks that we are working with in terms of hurdle rates of ROIC, accretion, you also spoke about this transaction being immediately EPS-accretive. If you could just help us understand that process which helps you zero in on targets and what constitutes our value judgment, whether we are going ahead with a deal or transaction that would be helpful?

Vinita Gupta: So we will let Ramesh add but from our perspective the first thing is a strategic fit in terms of the value that an asset brings to Lupin our strategy and the synergy that we have with an asset. Second, from a valuation perspective when you look at the EBITDA multiple it is well below

what one has seen on Generic transactions over the last 6-months. Third, I will let Ramesh respond to the different parameters that we look at, we have a pretty disciplined process of looking at acquisition candidate from multiple angles to determine from a financial perspective and the impact on our P&L and balance sheet.

Nilesh Gupta: Our track record suggests that when it comes to this taking endeavors, it has always been calibrated. So as Vinita put it we look at in fact a host of strategic parameters when you look at any acquisition. But, in terms of the financial parameters itself the payback period certainly would be very important to us because a lot of other parameters, we do look at in fact EBITDA multiple, sales multiples and of course the IRR and the like, but as we would kind of respect, a lot of this is actually based again on the kind of projections that one makes and a lot of things are again subject to debate in terms of the weighted average cost of capital or the terminal growth rates and the like. So in our experience whilst we look at everything the payback period for sure is an extremely important criteria and that way in this particular deal we are looking at a payback period of about 7.5 to 8-years which we think is certainly attractive given the kind of assets valuation that go by in the market.

Anmol Ganju: Nilesh, you spoke about the fact that our observations at Indore are fairly benign and do not translate to data integrity. So that is quite reassuring, but what I am trying to understand is that, if you look at the pace of approval, there is a general slowdown in the industry, but in our case, would you specifically link a slowdown to Goa undergoing this inspection at this point of time or an acceleration of pace of approvals, is that anyway correlated with the final solving of this particular 483?

Nilesh Gupta: No, I was asked a question yesterday as well, I do not quite subscribe to this idea, we got six approvals in the last quarter I think the FDA is actually getting better at the approval rate and we are seeing that certainly for Cohort III filings for example and we are seeing rapid movement but even on the older ones the exclusive ones that is where you are seeing them taking things up and running quicker. The Pithampur audit and 483s were a non-event and that did not really slow down, at best you are talking perhaps or may be 2-3-months where the FDA is completing its own internal process in that. So the bigger part of the slow down just is in terms of FDA going through asking questions, taking up those responses, reviewing them as well, and we have not seen that kind of linkage, and when that linkage happens I think it is a very binary event, I think you are talking, if you were to have any escalated FDA action then you are talking about a pretty prolonged period before you will see more approvals. So we have not seen that and we certainly do not expect to see that going forward.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Sir, just wanted to get some sense on what is the share of Branded and Generics. The follow-up would be if I even take 5% to 6% branded sales, my Generic business run rate for the

quarter comes about $170 million, which is a decline Q-o-Q by 10%. So, I understand there were no meaningful approvals. But, could you explain the kind of erosion we have seen in the quarter?

Vinita Gupta: We have not really seen any material price erosion in the quarter. When we looked at our baseline product which is way we track price erosion the stable product one has seen a 0.5% or so price erosion which if you analyze will be 2% and typically you see 5% to 6% price erosion in baseline products. So that is not the challenge from Q4 to Q1, you see the seasonality impact, the two things that you are seeing is one seasonality impact and second is well that is on the brand side you are seeing Suprax Generic, but all of the Cephalosporin products are lower in Q1 than Q4 obviously. Q1 tends to be lower than Q4, Q2 tends to be lower than Q1, even Q2 is the lowest, and then Q3 and Q4 are ramp up for the seasonal products.

Prakash Agarwal: Just a couple of clarifications; Saw on the media on the valuation multiple of 16x, at the same time, margins of 36%. So if I do math, we get $35 million and it becomes 25x. So if you could explain me the valuation of 16x, how do you get that multiple?

Alpesh Dalal: Multiple is basically based on the current year, we are in the middle of the year, so we are looking at the current year number for that. So that number obviously is not available right now to the public, but it is based on that, it is not really related… because the number of 36% was for calendar year 2014 which is more than 6-months old.

Prakash Agarwal: Is it fair to understand that substantially margin and revenue growth we can expect for the year?

Vinita Gupta: Exactly.

Prakash Agarwal: You talk about couple of visibility that you have already spoken about Azithromycin, Wellbutrin launches. If you could just give us some sense on your earlier expected products like Welchol, there were some work required to be done by us and other products like you said Lumigan, which you have launched, there was another Ophthal product Vigamox and then Renagel. If you could give some broad level highlight when do you expect these products?

Nilesh Gupta: So on Welchol we had a query, we are in the midst of answering that query, and I think it is more likely Q4 kind of launch, this is the powder for suspension. On Sevelamer again, we talked about it being a late Q4 launch, I think whether its late Q4 of very early Q1 of the next financial year, so around March 2016 or April 2016 is when we are expecting to launch. Similarly, I think Sevelamer Powder for Suspension also a Q4 launch. Some of the near-term launches Vinita talked about I think Azithromycin Tablets and Azithromycin Suspension likely in Q3, Wellbutrin XL and hopefully by the end of the calendar year Esomeprazole going into late Q3 or very early Q4.

Vinita Gupta: Bimatoprost we already launched, we have launched a unique strength that the brand is already switched from. So it is a very nice balance for us to try to switch the market back to the original product. We have seen good reception to our product. So we are going to track that closely. We have a couple of other Ophthalmic products as well; Bromfenac likely launch in Q3 and I think Ophthalmic that is the next one.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Firstly on Nexium, if you can confirm whether it is from Goa plant or not?

Nilesh Gupta: Yes, it is from the Goa front.

Nimish Mehta: Second, on Nexium, do you expect limited competition even while you enter? We do not see much competition coming in between now and when you will launch?

Vinita Gupta: It is hard to tell who is going to get approved when, right. We think that the work that we had to do, everyone had to do, the question is how quickly and how fast will they get the approval based on their filing to the FDA, but all said and done we do not expect more than 5-6 competitors. It is still a big opportunity.

Nimish Mehta: In terms of your acquisition of Gavis, just wanted to know, when I checked the Gavis product launches in the USFDA and when I look at their website, there are different products, so for example, they have launched Doxycycline, but they do not have an approval. So is there something that I am missing or how should we look at, or is there is a Contract Manufacturing business, if you can just tell us about it?

Vinita Gupta: I am not sure what you are looking at, maybe we can pick it up offline but they have 20 plus products on the market. So that brings our portfolio up to over 100. We have 81 products in the market, products that they have got approved for, there are some products where they have manufacturing relationships with the brand, so we are also capturing that revenue of course in some of the GI products.

Nimish Mehta: So will that be a significant number or it will be like not a significant number?

Vinita Gupta: No, the significant part of it is really their own sales through their own products that they launched.

Nimish Mehta: Among the pending approvals, among the Dermatology products, most of them are Topical, is it a fair understanding or…?

Vinita Gupta: That is right.

Nimish Mehta: On Gavis, can you just let us know what is the reason why the current management sold out?

Vinita Gupta: The CEO, the founder of the company this is his second startup, he has started Kali and sold to Par and he wanted to retire. It looks like he had done this for a very long time.

Nimish Mehta: But, will he be continuing in the management or he will actually retire functioning?

Vinita Gupta: He is going to help us for 1-year.

Nimish Mehta: Can you just let us know what is the R&D expense of Gavis as a percentage of sales and whether do you see this moving up and despite that the margin remaining, whatever it is 36%...?

Ramesh Swaminathan: Close to 21% of their sales is the R&D expense.

Nimish Mehta: You are talking about 2014 or you are talking about the latest first half that…?

Alpesh Dalal: 2014.

Vinita Gupta: The EBITDA 36% is after that.

Nimish Mehta: It will remain like this or it will come down?

Alpesh Dalal: So for foreseeable future as a top line growth it will slightly come down but more or less in similar range.

Moderator: Thank you. The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.

Jiten Doshi: I have just one question; What is the level at which you will look at equity dilutions because currently you are debt-free, you have $200 million in cash as we saw this morning, Ramesh has stated on the TV interview. So basically, for you to go to even a 1:1 debt-equity, it will be quite a while. So what is that level at which you would think of equity dilutions to support the acquisitions?

Ramesh Swaminathan: No, as you yourself said, if you look at an debt equity 1:1 ratio we are talking about at least Rs.9,500 crores. So there is enough capacity on our balance sheet to look at further debt if it comes to that. So the need for actually looking at equity dilution does not arise at all. Any resolution we have taken is only an enabling thing, it does not necessarily trigger any action.

Jiten Doshi: What are the cost of the funds that you will be tying up long-term for this acquisition?

Ramesh Swaminathan: The cost of funds that are applicable in the market today. So it ranges from half a percent to if you talk about a 10-year rate it is close to about 3.5%. So we will have a mix of funds of various tenures for acquisitions.

Jiten Doshi: I am sure that since it is in the US, you will finance it out there too, right?

Ramesh Swaminathan: For sure, it is going to be certainly dollar-based.

Jiten Doshi: So you will do a dollar-based financing. So I assume the whole transaction should be EPS-accretive from year one?

Ramesh Swaminathan: That is what we have stated in our press release also, it is accretive.

Jiten Doshi: Now Vinita, my next question is are you still on the lookout for more acquisitions of this nature or would you wait till? This is the largest one that you have done so far. What's the waiting period till you really integrate this acquisition or would you still be in the hunt of more?

Vinita Gupta: On the Generic front in the US you would not see us doing another major acquisition, this is our big one, right, and complements us extremely well. We continue to look to build our portfolio though. So when we are looking at product acquisitions in Injectables plus on the brand side we still are missing a meaningful near--term portfolio. So we continue to look at opportunities there. But, in the last 12-months we have executed pretty well on M&A strategy mean we have said that we are going to look to acquire Generic companies that complement our capabilities to get into regions, geographies that we can add value to and add to our Specialty business mean you have seen in the last 12-months from a geographic expansion stand point we have got into Brazil, we have got into Mexico, we will get into Russia after we close the Russian deal, and to some extent, even this one gives us more of a footprint in the US… we have never had manufacturing in the US as well as it complements our technology capabilities on the Generic front. So depending on where the transaction is, we have a very strong management team across the globe, on the US Generic front, we will be very busy integrating this asset for the next many months.

Jiten Doshi: Vinita, the filings are all known to you all. So, is it something in the pipeline that makes you believe that you will be able to accelerate the payback because probably what the pipeline is would be known just to you and the management selling out. So is there something very interesting out there where you could may be in a year reap $100 million, $200 million something of that sort, can we expect to come out of the kitchen because 10 years is not what we generally believe you are all looking at paybacks, that is not Lupin style because that does not fit the ROI?

Vinita Gupta: 7 to 8-years, so that is the kind of payback and hopefully, we can accelerate it based on the upside we see on this business.

Jiten Doshi: So this 7-8-years is the base case?

Vinita Gupta: Exactly.

Jiten Doshi: But you believe that if your fit is very good and if you sort of meet all the synergies then there is something more in the back-end that you are seeing, this could get accelerated to what — about 5 to 6 years, 5 years or 4 years?

Vinita Gupta: Could be.

Moderator: Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.

C Srihari: If I look at the gross margins, it has held steady or rather it has improved despite our lower US sales. Could you please elaborate on that — which market has actually filled in within the US?

Management: Are we speaking about the quarter-on-quarter or year-on-year?

C Srihari: Whichever you may take it…

Ramesh Swaminathan: So let us talk about quarter-on-quarter, essentially it has actually come down from 69% to 68% because of hedge gains and IP income which is lower this time around. And if we speak about year-on-year the 66.3% it has gone up to 68%. That is because of again the FX realization of close to Rs.56 crores and IP income of Rs.8 crores. It is also because of the fact that the rupee has depreciated against dollar, so from 59.82, we have an average of 63.44 for this quarter. Obviously that has impacted tremendously on the overall realizations.

C Srihari: If I look at it sequentially, okay, fine, it has gone down vis-à-vis Q4, but it is still better vis-à-vis Q2 and Q3?

Ramesh Swaminathan: So that is exactly what I said, it is essentially because of the fact that the rupee has depreciated, and of course, there are margins increases in other parts. When it comes to in fact IRF and the API business of course there has been a margin increase and we have got optimization on the procurement front as well, we have been working on this continuously for the last several quarters. All this have helped in actually gross margin improvement.

C Srihari: Of this 66 pending filings of Gavis, the addressable market is $9 billion. So for your pending filings, what would be kind of addressable market?

Vinita Gupta: $55 billion.

Moderator: Thank you. The next question is from the line of Surjit Pal from Prabhudas Lilladher. Please go ahead.

Surjit Pal: Ramesh, considering that 16x to your EBITDA. On the back calculation I found out is that it could be your sales of around $150 million. Now, considering your $150 million given the statement you have given on TV that it will be $300 million by FY18. That means given your guidance previously that out of $5 billion by FY18, you will have $1 billion from M&A, so another $700 million. So if I take it from perspective of funding, you got $300 million sales for next 3-years with a cost of $880 million, if I am considering another $700 million, so will you require a fund of another of $2 billion?

Ramesh Swaminathan: It does not work in terms of an equation really, so you need to look at the proposition and look at it from a strategic fit point of view and of course from a financial economics perspective as well. So, each acquisition obviously has its own nuances. Whilst we look at the broad framework that we are suggesting, the fact is we will be looking at Specialty assets and they fit into very different kind of a model.

Surjit Pal: No, whether we should take it as a 9x or 3x, but the point is that given the kind of aggressiveness or the recent acquisition of your management is showing, do you really think at one point of time, it may not be tomorrow, by FY18, company might be going for equity raising given the kind of current valuation going on global M&A?

Management: As of now it is not warranted, but you never know what is going to happen in the long-term.

Surjit Pal: Vinita, given the kind of conservativeness you have shown in previous very occasions and you have told many a times that the valuation should be right, which is pretty high in US assets. Given the kind of what has been happening in US and other market, say, for example, Teva, Mylan, we can see, 273 pending ANDA with $107 billion market addressing 47 FDA still, they are giving a multiple of 1.5x, do you think that 66 pending ANDA get a three… even if I assume that $300 million, though that is a future, but Mylan is at present revenue of $30 billion. So if I assume that $150 million of your sales, do you think the current valuation is in sync with the global standard?

Vinita Gupta: As I mentioned earlier, the current valuation is very much in sync in the low multiples that we have seen in the US in the past 6-months, the 2015 deals as well, and then based on our valuation of cash flows, it is well within the range, plus we have not really added any value of synergy.

Alpesh Dalal: Just to add to that, when you look at Teva-Mylan kind of deal, you need to consider the base value as well, because the base is very high, the growth trajectory in percentage term would look significantly lower, hence comparing that size of a deal with this kind of a deal may not be an appropriate comparison.

Surjit Pal: Nilesh, do you think given the kind of observation has been given, how many of them are in critical category, given that they generally divide in three parts — critical, major and minor? Do you think given the kind of observation there could be a fear going forward if you do not get resolution in near-term to medium-term that a number of approvals from Goa could be restricted?

Nilesh Gupta: First of all, the FDA does not classify in this manner, but all of these are valid observations, so obviously, we are addressing them all. Like I said, I do not expect this to escalate and we should be able to address this to the FDA satisfaction and there should really be no delay to approvals on an ongoing basis.

Moderator: Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: One clarification on the US FDA Goa plant. Would we require as a part of addressing this observation, any supply disruption or stoppage in supply for a short period of time, do we foresee any such situation from what we have seen so far?

Nilesh Gupta: No, not at all, we are continuing and we are ramping up, so there is no question of that.

Neha Manpuria: Second question on the results, Kyowa CritiCare seems to be turning around; we are seeing stabilization in the absolute sales and also growth improving. Should we assume that turn the page on that and it should show improvement going forward?

Nilesh Gupta: Yes, we are expecting that next 3-quarters should be quite good. So really I think the worst is behind us and we are looking forward to good growth.

Neha Manpuria: Should that then reflect in margins also, because this is one of the reasons why we were not really been able to deliver margins for Japan?

Vinod Dhawan: The possibility of the I'rom business or Kyowa CritiCare as we call now has been improving.

Ramesh Swaminathan You would also appreciate that the Yen has kind of depreciated against the dollar. So essentially that is obviously having an impact when it comes to rupee-based results. But when it comes to the local growth rates, they are fairly okay.

Neha Manpuria: My last question on India. What changed quarter-on-quarter to drive that large increase — was it a timing issue or has something specifically changed?

Shakti Chakraborty: I think we have also launched a couple of products there, I think we have launched some competitive products. That is the main reason.

Nilesh Gupta: Typically Q4 is obviously is light and Q1 is always good. So you see that every year as well. It is a little bit of that, but if you see the year-on-year you see a more representative kind of a growth.

Ramesh Swaminathan: 16% on a year-on-year basis.

Moderator: Thank you. The next question is from the line of Girish Bakhru from HSBC. Please go ahead.

Girish Bakhru: Actually just again on Gavis, can you comment on which are the major API suppliers for Gavis?

Vinita Gupta: For the Controlled Substances, they have folks like Norco and Johnson Matthey and the like. It is a pretty diverse group of the suppliers.

Girish Bakhru: Novel Laboratories… does that have large part of products with Gavis, is that a fair understanding?

Vinita Gupta: Yes, R&D manufacturing is Novel and the commercialization is Gavis, it is the same organization though.

Girish Bakhru: In terms of the number of ANDAs, when you say 165, there are no overlaps between Lupin and Gavis, right, or there would be some overlap, because I saw some products like Arpizol or Calcium Acetate, which could be some of the common filings that you may have?

Vinita Gupta: There are a very few overlaps and the assessing which product is further long to determine which one we would want to pursue.

Girish Bakhru: Are there any transdermal filings from Gavis?

Vinita Gupta: No, there is no transdermal filings.

Girish Bakhru: Under the list of the approvals that you actually mentioned which we expect in the next few months, I do not know why you did not mention Aripiprazole, what is the status there?

Nilesh Gupta: It is under review, but we actually file late on Aripiprazole and we knew that we would always be late in that one. So, I think it will come in when there is a stable second wave coming out.

Girish Bakhru: Which is expected next year now or when do you think that is expected?

Vinita Gupta: Next fiscal year.

Girish Bakhru: Lastly, broad thoughts, if you actually were looking at something like this… I do not understand what are the current transactions happening on the Branded side, was there a

comparison where some of the existing brands, which are in the market would have come at similar valuation and probably supplemented your Brand business, so where did that decision stand vis-à-vis taking more Generic business in US for any brand?

Vinita Gupta: We have had an objective both to add to our Generic business to complement their capabilities. On the Brand side of the business, we have not come across valuations in the teens, they always above 20, you can look at EBITDA multiples of 25 plus on the Brand side of the business. But having said that, tail end brands tend to be lower in terms of valuation. So, we have been looking at full stock opportunities including the Gavis like opportunity plus tailored brands plus other Specialty opportunity.

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

Anubhav Agarwal: Some questions on Gavis acquisition. First is out of the 66 pending ANDAs, roughly how many of them were filed in last two years?

Vinita Gupta: We will take that offline.

Nilesh Gupta: But good numbers in the last 2-years.

Anubhav Agarwal: Because if I see Novel website, which gives the number, they say that almost out of their total pending ANDAs, they filed 60 in last 2-years?

Nilesh Gupta: It is just like all other generic companies look for QBD and **PAT** bit kicked in, they had a pretty high level number of filings as well.

Alpesh Dalal: When you look at their website, that would also include some products filed from a facility that we have not acquired. You cannot really take the 60 out of the 66. The 60 would be out of slightly larger base.

Nilesh Gupta: That includes the Wintac part also.

Anubhav Agarwal: So they gave the disclosure that in 2014 when they filed 40, Wintac was 20 out of that. They say that total was 90 pending ANDAs out of which you acquired 66. So assumption is the gap of about the 66 in 90, 20 is Wintac you have not taken and what are the other ANDAs that you have not taken, because I was initially thinking that all the overlap ANDAs you may not have taken?

Vinita Gupta: No, we have taken everything, we would divest whatever we need to divest.

Anubhav Agarwal: For Novel, I do not see any DMFs. So they do not have to file any DMFs?

Vinita Gupta: They do not do APIs.

Anubhav Agarwal: So currently the profitability is high for the acquisition because of one product. But, do you think that going forward because they are not vertically integrated any of the products, will it impact on margins?

Alpesh Dalal: Basically, it is not because of one product that is currently there. I think the quality of the products which are there in the pipeline as well, they are fairly niche in their this thing. We expect in most of them as they have been having in the past they will have limited competition.

Anubhav Agarwal: A couple of more questions on this as well; So let us say in your target of $300 million by FY18 from $100 million, so next incremental $200 million from that base, how many ANDAs you are expecting to get approved to reach that number roughly?

Nilesh Gupta: 15 to 20-products from the Gavis pipeline per year.

Anubhav Agarwal: So basically, by FY18 you expect about 40 approvals out of the 66 to give you that $300 million range?

Alpesh Dalal: It probably would be more like 50-odd products out of this 66-products.

Anubhav Agarwal: So this 50 products you said is incremental or total 20 plus 30 products?

Nilesh Gupta: New launches.

Anubhav Agarwal: Because we have 66 pending, good part of the pipeline when launched will give us about $300 million top line?

Vinita Gupta: That is right.

Anubhav Agarwal: No, Lupin's ROE is about 30%. So, when does it become return accretive on that?

Ramesh Swmanathan: From a financial perspective, I think it is more important to become EVA-positive and that I think will happen in the next couple of years.

Anubhav Agarwal: Out of $300 million, just roughly how much will be Controlled Substances — will it be like 30% of that sales or less than that or more than that?

Alpesh Dalal: Anubhav, we can come back to you later on.

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

Sameer: This is Sameer here. Just on Gavis, a couple of questions; I think many have been asked, I think your press release says there are 25 Para-IV filings. Of these I have been able to identify 9. Very frankly, it does not look inspiring at all. 6 were actually under $50 million, $60 million revenues. That is a target under the Branded market and with multiple players, only 2, 3 were above $100 million and 1 was $400 million, which had about I think 12 players, that is a lot and then the other $200 million had 3 or 6 players. Is that assessment of the pipeline correct based on what has been litigated and therefore public information?

Vinita Gupta: Sameer, they do not have a single product that is $100 million product opportunity, they have a host of products that will have limited competition where you can expect a nice sustainable anywhere between $10 to $20 million per year kind of top line and that is what we liked about it, as we looked at their pipeline we saw a pretty potential of growing the business over 3x over the next 3-years plus there is upside and we think that it is more sustainable.

Sameer: It is just that none of those 9 products looked like be able to generate $15 million, $20 million revenues?

Vinita Gupta: They actually have a product right now that are generating that kind of revenues.

Sameer: No, I was talking about what is not approved. I think what is there, there is one product which is $35 million or thereabouts on IMS, but rest are all under $15 million I thought.

Vinita Gupta: There are a couple that are $15 million.

Sameer: Vinita, the point I am trying to say is there can be better disclosure of the pipeline for us to get comfort that your sales are headed where you think it is headed, that would be helpful?

Vinita Gupta: Yes, we will try to put that together, Sameer.

Sameer: Second question on Gavis is, this is $900 million-odd transaction. So, I understand the interest repayment can be taken care of by EBITDA. But how would you be repaying the principal amount — would you be dipping into Lupin's US dollar income to do that?

Ramesh Swaminathan: It is going to a pool of income, the income streams really do not have any color, we do not have any debt on our balance sheet, and so if you are talking about repayment, it obviously is going to come from the current income streams as well as the Gavis income stream.

Sameer: So the moment you start using Lupin's income stream, that is a high cost of capital. That is not your incremental 2% cost of capital, that is your cost of equity, which is 15%.

Ramesh Swaminathan: I never said that it is EVA-positive, I only said it is EPS-accretive which is essentially looking at the cost of funds prevalent in the market and applying that on the total outlay. So, if we are

speaking about the 11% it is obviously going to take some time before we reach there. So it is another couple of years really.

Sameer: Vinita, I was just wondering that the company has given 2-3 guidances if I can just read them out; fiscal '16 is 10% to 15% top line, fiscal '17 I think Nilesh has said that you will be getting back on to a (+20%) top line growth and fiscal '18, excluding acquisition you are aiming for $4 billion organic sales. Do you think all three of them tie-up together and would you want to confirm each of these three?

Vinita Gupta: Fiscal year '16 we might be a little bit short because of the delay in Esomeprazole approval to the latter part of the year; fiscal year '17 we feel pretty confident of the (+20%) growth; and fiscal year '18 we are trying to get organically to that $4 billion number, but we think we are going to be short of that $4 billion organically, we think that we have a larger gap to fill through acquisition.

Moderator: Thank you. The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: Just a couple of clarifications; because of the Gavis acquisition sir, what are the kind of tangible and intangible assets that you are getting, talking about?

Ramesh Swaminathin: Essentially, what we are acquiring there are Plants and some real estate associated with it which is going to be a smaller portion of the overall $880 million that we are paying, a lot of it is essentially for the existing pipeline and future pipeline.

Surya Patra: Yes, that is what the question was, like whether the capacity is big enough or it is just the capacity which would be catching to the Controlled Substances business for the US?

Alpesh Dalal: a) From a capacity perspective, they already have a manufacturing facility, (b) there is already construction going on for a new facility which we expect will start commercialization from end of this calendar year and probably fully operational by end of this fiscal year.

Vinita Gupta: They are going to have a 3 billion extended capacity.

Surya Patra: Is it possible for you to share what is the kind of size in terms of gross block of the asset, new plus the older one whatever that is there?

Ramesh Swaminathan: That would be irrelevant because it is all historical values.

Surya Patra: How much expansion that we are doing sir — What is the kind of CAPEX that we are doing in the new facility — whether that will be a significant chunk, that is what I am trying to understand?

Nilesh Gupta: I think let us get deeper into the acquisition then we can probably address all these questions much more meaningfully.

Surya Patra: Whatever the pipeline they are currently having, it is developed by themselves or it has been in-license also from somebody else?

Vinita Gupta: It is all in-house development.

Surya Patra: What happened to that Namenda launch, can you just share what is the kind of?

Vinita Gupta: We have got 15% share.

Moderator: Thank you. The next question is from the line of Ranveer Singh from Systematix Infotech. Please go ahead.

Ranveer Singh: Just related to Gavis, I wanted to understand that they have fairly good number of approvals, I think total approval is 101 you said, right?

Vinita Gupta: No, their approvals are 20, ours are 81, so combined is 101.

Ranveer Singh: So just I wanted to understand that the chunk of approvals what we are expecting this having rate historically or Gavis is also on inflection and we will see next two years phenomenal growth for Gavis? So I wanted to understand that $96 million what you have given for 2014, how much growth were there in 2014?

Vinita Gupta: I think it is more important to really to look at the pipeline that is pending in the near term pipeline, based on which we feel pretty comfortable growing CAGR in the last 3-years time at 23%.

Ranveer Singh: So, that growth we expect to accelerate because the speedier approvals you are expecting for next 2-years?

Vinita Gupta: Yes, the number of approvals that we are expecting.

Ranveer Singh: In Gavis, what proportion would be from manufactured products and what would be the trading of goods?

Vinita Gupta: 100% own manufactured.

Ranveer Singh: When can we expect that integration will start from which quarter?

Vinita Gupta: Hopefully, in the next 2-3 months.

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

Manoj Garg: Vinita, just one question on terms of the projection which you are talking about $300 million. So, is larger incremental sales going to come from the new products or even you expect there is a room for existing products because I can clearly see that 5 out of 20 products have a monopolistic kind of a situation in the market right now?

Vinita Gupta: Yes, so the existing product line is fairly stable, we see some upside potential to the existing products, but majority of the growth is going to come from new products.

Manoj Garg: The second question is obviously, somebody has pointed out even earlier also that a good part of the filing has happened over the last 2-3-years, and given the FDA, which is clearly going through the kind of the backlog, they definitely have a priority and all those kind of timeline. So, how confident we are in terms of getting those 50 approvals over the next 2-years to make our target of achieving the $300 million number?

Vinita Gupta: The FDA is improving; in the last couple of months we have seen a better visibility from the FDA on target action date, we have got a number of approvals; this last quarter we got 6 approvals, Gavis is getting approvals every month. So, we feel confident that in the next 6-months basically a good amount of progress in FDA approval rate that will help both the Gavis pipeline as well as ours.

Manoj Garg: If everything else remains equal, what could be the peak potential of this Gavis portfolio of these 66-products which are awaiting approvals?

Vinita Gupta: I do not want to put a number, I think we already said 3x, there is upside to it.

Moderator: Thank you. Sir, you may add your closing comments before we conclude.

Dr Kamal Sharma: Thank you very much. I hope you have been able to get answers for most of your questions. I just want to say as you heard the team speak to you notwithstanding the current subdued growth or a little pressure because of product availability in the US, the team is fully committed to grow the business both organically and inorganically. When it comes to acquisitions I just want to say that there is always temptation to pay less and it is natural, but in the process, the bottom line is whether you get the asset that you desire or you do not get the asset that you are really looking for. So, it is a touch and go at times. We have had our share of not having got the assets that we were looking at and we have had our share of getting the assets that we are looking at. So, in the end, I think it is the commitment of the team to make sure that we get the best value out of what we are investing and that endeavor would always be followed by the team. As far as USFDA observations are concerned, you heard Nilesh say that these are in the form of routine observations. We remain fully committed to quality and

compliance; we have graduated ourselves to all line compliance, there are certain aberrations once in a while as Nilesh mentioned about the interpretation of the provisions of the FDA guidelines and these will be tackled very effectively. So, thank you very much and if you have any other questions, you can take it up offline with Ramesh and Alpesh and Rajiv. Thank you and see you next quarter. Bye-bye.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Lupin Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.