“Lupin Limited Q1 FY17 Results Conference Call”

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Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Q1 FY'17 Earnings Conference Call of Lupin Limited. 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 opening remarks. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. Desh Bandhu Gupta – Chairman, Lupin Limited. Thank you and over to you, sir.

Dr. Desh Bandhu Gupta: I welcome you all to Lupin's Q1 Earnings Call. Here with me are Kamal, Vinita, Nilesh, Ramesh, Sunil, Shakti, Naresh, Rajiv Pillai. I am very proud and happy that we have delivered our best results to-date. Our net sales for the quarter grew by 40% and net profits grew by 55.1%. We have seen robust growth across all our key markets – US, India and Japan. We are committed to maintaining this growth momentum for the financial year.

I now hand over to Ramesh – our CFO who will take you through the details of the performance for the quarter.

Ramesh Swaminathan: Thank you, Chairman. Good Evening, Friends. So you hear the Chairman speak about the fact that our results were the highest ever. So to repeat the same thing again, we touched Rs.4,314 crores vis-à-vis Rs.3,081 crores same quarter last year. That obviously is a tremendous performance.

But what is so pleasing about the whole thing is the fact that the secular growth across all our markets:

In the case of America, we clocked about 82% growth. If you look at Japan, we clocked 31% growth. Even India we actually clocked 23% vis-à-vis the previous quarter. So it has been good growth all over.

Gross margins were higher than the last year but a little lower than the previous quarter and this is something which has been raised by other analysts to me after we released the results.

It is because of the fact that as we close the books last year, when it comes to inventory relating to Gavis, we had actually taken at a fair value. Principally, we did not make any profits whatsoever on the Gavis portion of the inventory and that actually lowered the margins a bit and is, of course, impact of lowering the Glumetza prices this particular quarter. That is why you find gross margins little lower than the previous quarter.

The EBITDA margins grewhigher as compared to industry again; 32.2% vis-à-vis 29.2% which is 3% higher EBITDA despite the fact that the quantum of R&D expenditure this quarter was higher by 1.4%.

In terms of the profit after tax – stupendous growth again, talking about 55% growth and this is after taking into account, in fact, the benefit of lower tax rate principally because of the accounting standard change.

We, in the past, had always been impacted by tax that we paid on unrealized profits, but this time around because of change in accounting standards, we are able to take advantage of that and that has normalized the tax rate somewhat whilst the full year we do expect it to be close to 27%.

I am sure there are a lot of other questions that you would like to ask us. So we would open the floor for discussions.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Kumar Saurabh from Motilal Oswal Securities. Please go ahead.

Kumar Saurabh: I believe it is a one-time adjustment regarding Gavis which we have done. Is this a recurring phenomenon or this is a one-time adjustment to the book which we have done?

Ramesh Swaminathan: It is a one-time impact. So let me repeat again for clarity; when we did our accounting for the previous year, when we actually closed the books, we did a purchase price accounting of the entire set of assets that we take over. So inventory that we take over, we took it at market value. So when we actually disposed off the inventory in the first quarter, we do not actually make any profit whatsoever on that. So the top line is consolidated, whilst we have nothing on the gross margins and there is nothing to follow in terms of EBITDA and for the matter the net profit itself, that is why you find the gross margins to be somewhat suppressed. That is one part of the reason, because other parts of the reasons really relate to decline in prices of Glumetza and yeah, there is actually a mix impact.

Kumar Saurabh: So Glumetza pricing I believe that because the new competition has come from this quarter onwards, so the real impact of pricing would come from the following quarter. Is this the right understanding?

Vinita Gupta: There were two things – Glumetza in Q4 obviously we launched the product, so there was some inventory load. Customers typically take one or two months extra during launch. Second, we have to make some adjustments on the pricing to be able to get the right volume potential in the market. So while we did not have any additional competition, we were starting to see some blocks at certain formularies and proactively make some adjustments to be able to get the right volume.

Kumar Saurabh: For our India business, how should we look at this quarter? I believe that there were certain regulatory challenges also even peers have witnessed that. So we should consider this as a one-off quarter or this is the full-year FY'17 we should see this kind of pressure?

Mr. Shakti Chakraborty: Exactly, it is only one-off, we had this NLEM impact, I think much larger than the industry. We also restructured our business. Four verticals of the business have been restructured. It took about two-three months' time to settle down. Everything is behind us now. I think going forward we can see only growth.

Kumar Saurabh: Rest of FY'17 should we consider double-digit kind of growth?

Mr. Shakti Chakraborty: Sure.

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

Prakash Aggrawal: First question on the recent tentative approval we got from Goa facility and also we have the EIR clearance now. So what is our thought on the approval of the Goa site and especially we have not seen approvals of Crestor, Abilify and nNexium. If you could throw some light there that would be useful?

Nilesh Gupta: We are cautiously optimistic. We got the EIR for the first sets of 483s. We have been working with the FDA to get a response from the second set of 483. Their response was that it is under active review at this point. I see that tentative approval as a positive, but I think we need to see a few more approvals before knowing that we are in the clear. From our part, we have shared very detailed plan with the FDA and we have given monthly updates on action as well as far as collective measures, as far as the 483s are concerned, but a more holistic transformation as well. So, obviously, we are going to work with the FDA and we should have clarity in the next few months.

Prakash Aggrawal: Is there any classification on the second 483 please?

Nilesh Gupta: No, I think only when we get the EIR, we would know what the classification would be. As far as the approvals itself are concerned, Esomeprazole we had a query from the FDA that we needed to respond. So I really see this as an FY'18 opportunity. Aripiprazole we were always late. So from that perspective we are in that second wave, so again that is an opportunity for either end of this year or next year.

Prakash Aggrawal: Secondly on Gavis, if we go through the Annual Report, there is a mention of turnover of about Rs.1.2 billion for 20-21 days. So do we annualize it or there is a loading as Ramesh just pointed out because then the run rate becomes over $200 million. Some clarity would really help because our understanding was it is about $100 million, $120 million?

Ramesh Swaminathan: So if you are talking about the previous year we have spoken about the fact that it was close to $110 million overall. We have not disclosed what would be the turnover for the full year.

Prakash Aggrawal: No-no, the Annual Report has a 20-21-day sales presented in your…

Ramesh Swaminathan: That is correct.

Dr. Kamal K. Sharma: So I think you can annualize that number because this is too short a data to take it for the entire year. I think we have to go quarter-by-quarter.

Prakash Aggrawal; Have we been able to launch those 16 approved products at Gavis last year that was approved last year?

Vinita Gupta: All of the products of the Gavis portfolio have been integrated with the Lupin portfolio at this point. Generics front, the entire line has been added to the Lupin line and on the brand front Methergine has been added to the brand portfolio. So, all of that is done. We have really spent the last four-five months on integrating the Gavis business, the commercial team, the technical team into Lupin and that has gone through very successfully.

Prakash Aggrawal: These approved products have been launched?

Vinita Gupta: Yes, all of the products that were approved so far have been launched. There are multiple approvals that we are still waiting for. We expect to launch 15-plus products out of Somerset this year. So we are waiting for additional approvals as well. But all of the approved products are launched.

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

Manoj Garg: Ramesh, will it be possible for you to quantify the impact of Gavis in terms of gross margin for this quarter?

RameshSwaminathan: It is closer to about a percentage point.

Manoj Garg: Vinita, just want to understand from an US perspective. While we do understand that Glumetza and Fortamet are going to be the key growth drivers for the year, how do you see growth panning out for '18 and '19 given we have a very-very strong pending pipeline?

Vinita Gupta: Yes, we have an exciting pipeline. Number of exclusive, semi-exclusive products and number of the new platforms playing out over the next two years, this year apart from the Gavis portfolio, apart from Fortamet and Glumetza, we expect to launch products like Minastrin and Epzicom later in the year. I think the full impact of this product we will really see in the next year but those two of them certainly be good contributors in the next year to our Generic business. We expect to start seeing launches on the Derm front this year and next year certainly good impact from our Derm pipeline both out of India as well as Somerset. Controlled substances, number of products we are expecting approvals from the FDA in this year as well as next year.

So, I would say in the next two years, a combination of our products in particular the semi- exclusive, the exclusive plus the Derm pipeline out of India as well as Gavis plus the controlled substances should add very nicely to our revenues as well as profitability. So the Inhalation pipeline will play out a little bit later year-3, 4, 5. That is on the Generic front.

Manoj Garg: Just would like to understand on Methergine front because given now we have exposure of around last 2-3-months when we have converted this product to brand portfolio, how you are seeing the initial response and in terms of gaining your market share, etc?

Vinita Gupta: So the initial response has been very positive, the physicians have received the message very well, they are starting to write this product. We are still converting. So we have seen a very good level of switch from Generic to brand. I think it is close to 100% done at this point. So far we have really seen more of a switch rather than a growth. But the products have been received very well and our message has been received very well, we would expect to see the products grow over the next coming months.

Manoj Garg: Does this product has a potential to become maybe another Suprax kind of a product over the next 3 to 5-year kind of time horizon?

Vinita Gupta: We are hoping so.

Moderator: Thank you. The next question is from the line of Nitika Jalan from Narnolia Securities. Please go ahead.

Nitika Jalan: Just a couple of questions. How many products are filed in this quarter?

Nilesh Gupta: We filed two products this quarter.

Nitika Jalan: Could you share the outlook for the year 2017 given that we are yet to see the approval from Goa facility?

Vinita Gupta: Outlook from a commercial perspective, as you have seen in the first quarter, we have had very good level of growth. We expect to continue the growth momentum for the rest of the year just based on the portfolio that we have plus the Gavis portfolio that we have added. We also expect to launch a good number of products between India and Gavis, we are hoping to launch 25 plus products FDA permitting. So good number of launches that we expect for the year.

Nitika Jalan: On the US side the products we are expecting to launch. Is there any FTFs in this fiscal 2017?

Vinita Gupta: Yes, there is Minastrin that was a first to file.

Nitika Jalan: When is it going to launch?

Vinita Gupta: In March.

Nitika Jalan: How much will be the CAPEX going forward?

Ramesh Swaminathan: Close to say about 1800-2000 crores for the full year.

Nitika Jalan: How do you see the margin growth in FY'2017?

Ramesh Swaminathan: So you have seen in fact margins evolving over time, even this particular quarter it actually was higher than the previous year, but it is not to say this is going to be linear, it is really the function of in fact the kind of products that we bring into the market and of course outcomes of various operational excellence measures that we have taken and for sure we do also invest ahead in the curve in terms of R&D expenditure, investing in sales force and the like. So we would expect it to go up over time, but not necessarily every quarter.

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

Girish Bakhru: First question was on again Gavis impact. Can you share how much was staff cost to sales for Gavis?

Ramesh Swaminathan: It is roughly half the increase in terms of vis-à-vis the previous quarter.

Girish Bakhru: On this particular Methergine, if you could comment on the price premium that Brand would be at from the Generic?

Vinita Gupta: I don't have the specific information on pricing.

Ramesh Swaminathan: We do not disclose.

Dr. Kamal K. Sharma: I think you are comparing apples and oranges, because Generic pricing is a function of many other variables which Brand pricing is something that we are looking at the competitive dynamics of the product. So there is no R&D here as you know.

Girish Bakhru: But should I understand the formulary status would be the same for the Brand and the Generic?

Vinita Gupta: It is not a very managed category.

Girish Bakhru: Just on the Goa again, have we done all the site transfers like I think we have 30 filings from Goa, how many are site transferred right now?

Nilesh Gupta: We had planned to complete everything by September, we are on track for that.

Girish Bakhru: So you will basically transfer most of the critical products from Goa, right?

Nilesh Gupta: Only the critical and only the near-term products, not the longer-term ones. So certainly not all pending filings are in Goa.

Girish Bakhru: On Japan, given that one of the peer competitors also kind of revised the guidance downwards, how are you seeing the market, and if you comment on the acquisition of these brands particularly what kind of synergies do you see from the Shionogi deal?

Nilesh Gupta: As far as Japan is concerned, we have grown at 10% to 15% in Yen-term since we acquired and that would continue. So in the last quarter we grew 11%. Obviously with the FOREX degrowth rate appears higher but we basically are on track on the 10-, 15% growth terms. That is primarily driven by new launches and more of the market going Generic as well. On the counter side, there obviously annual price cuts that are happening.

So one part from Japan is the Generic growth story and we believe that will continue to grow at 10-15% in Yen terms. We really like the Shionogi deal. I think that gives us an opportunity to build on the CNS franchise that we have. So more than 50% of Q4 is

CNS and with Shionogi brand we will get even stronger in that segment and it actually gives us the opportunity to build Specialty business out of this.

So I think going forward we are going to see continuing the Generic part and the second part will be to build out more of Specialty portfolio in Japan. With this, we are going to be the fifth largest generic company in Japan. I think that is a pretty commendable place to get to.

Ramesh Swaminathan: I think it also enables our ability to kind of access more Oroshis. So we are doing it through a couple of them, then the possibility of actually adding on two more is certainly there.

Nilesh Gupta: Your second part of the question was on synergy. The biggest synergy that we see out of Shionogi deal is leveraging our product portfolio into the other Oroshis that these products were in. So we do see good synergies coming out of that.

Girish Bakhru: One on the launches, Vinita, you commented Derm controlled substance, but you had also guided for one respiratory launch this year. Is that on track?

Vinita Gupta: I do not think we have guided towards a respiratoryl launch this year. We filed our first product last year,that is nasal spray. This year we are expecting to file our first MDI and are working on filing two DPIs next year. So, you see our first launch in ’18.

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

Surya Patra: All of our three major markets like domestic market, US and Japan, all are seeing some sort of pricing pressure. What is the kind of outlook that you are having from this point for the next entire year on that aspect?

Ramesh Swaminathan: If you speak about America, it is generally between 5% to 6% in terms of the in-line products but there are of course 2-3 specific products where the prices could actually go up or come down even more. If you talk about Japan, there is a scheduled price cut which happens from time-to-time. This year we saw close to about 6% on the portfolio that we have for Japan. India is a function of various things. So there is how much of it actually is under price control under NLEM and of course what the competition really offers on the other parts of the portfolio.

Dr. Kamal K. Sharma: The pressure on prices is something which is going to stay. The answer lies in operations efficiencies and new product launches. I think that is the only way you can utilize. I do not think you can do much about the regulators or the administration deciding to reduce prices.

Surya Patra: We would continue to be in the process of looking for some more inorganic activities out there doing the recent two?

Ramesh Swaminathan: Debt-equity ratio actually has come down since the last balance sheet date also. There is a sufficient room in our balance sheet to raise more debt. So we are looking up for opportunities whilst we are pretty calibrated about the way we go about it.

Surya Patra: In the initial commentary that we mentioned the tax incidents would be something like lower 27%, what is the change that we are witnessing -- is it because of the Ind AS or something else?

Ramesh Swaminathan: It is essentially because of two things: The total R&D expenditure that we have undertaken has certainly gone up and that obviously impacts the kind of deductions that are available. The second aspect is essentially because of the accounting treatment itself. In the past, we actually transferred products out of India, we paid taxes on it, but might not necessarily have this translated into a sale in America or other parts. So there is mismatch between the revenues and the cost. But now the accounting standard is more aligned to getting the URP through.

Surya Patra: So this is the kind of run rate one should look at now the tax incidence?

Ramesh Swaminathan: We are looking at 27% normalized rate for the year.

Surya Patra: I think you have mentioned something like the domestic field force that you have added, to some extent that has impacted the margin this quarter. So do you see kind of a ramp up happening in the domestic business so that cost can we absorb it or the cost scenario would be there for the entire year at least for this year?

Mr Shakti Chakraborty: All the people we have added, they are now becoming productive and they will be producing more and more. Naturally the CSR becoming higher, so naturally all these cost pressures are going to be neutralized.

Surya Patra: What is the total base of domestic field force right now?

Mr Shakti Chakraborty: 5,500.

Surya Patra: After addition of 1,000 people?

Mr Shakti Chakraborty: Yes.

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

Neha Manpuria: My first question is on the Japan acquisition. How will this acquisition be funded? Second, given these are products, which do not have Generic or limited Generic, is there a risk to these products declining going forward the growth slowing?

Sunil Makharia: Neha, in context of the first question, of course, in Japan and our exposure would be in Yen. So we would be borrowing in the local currency in Yen in Japan itself and you know the cost of funds that is very low.

Ramesh Swaminathan: On your second question, if you look at the portfolio and what is attractive for the portfolio was that the volume of price decline is absolutely minimal, the ratio of gross to net in the case of this portfolio was pretty high. So overall we do believe that this is going to be the case going forward also.

Nilesh Gupta: These products are not being promoted. We will obviously go back and talk to doctors about these products as well. Like we said earlier, one part would be the synergy play of taking our products to existing doctors and the existing channels where these products are selling.

Dr Kamal K Sharma: Also, the few brands are essential medicines. So there is no decline on prices.

Neha Manpuria: My second question is on CAPEX. Sir, you mentioned Rs.1,800 crores to Rs.2000 crores. That is a pretty steep jump from last year. If you could just give us some brief areas that we are focusing the spend on?

Ramesh Swaminathan: Quite a few things: We have the second plant coming up at Tottori in Japan itself. So bulk of that expenditure would happen during the course of the year. Expenditure coming up on Injectable plant. We are putting up in fact facilities at Mihan. So all of this is certainly going to be in potent medicines, plant capacities, all of this will certainly incur expenditure.

Nilesh Gupta: The last two years were pretty light and this is kind of lumpiness happening at this point of time, in Japan the projects is obviously very expensive and then you will start seeing it even out to numbers much lower than these numbers.

Neha Manpuria: Our other operating income was pretty large this quarter. Was there some sort of IndAS impact there or what was the reason for the lumpiness in that number?

Ramesh Swaminathan: Lot of it is actually because of the export benefits that we get.

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

Anubhav Agarwal: Vinita, one question on the US sales. If I exclude Gavis, based on certain assumptions, but if I look at this US sales into three parts, Glumetza impact sequentially and I am talking March quarter versus June quarter. We have lowest Cephalosporin sales because of seasonality and the base business. Just want to understand Glumetza you gave clarity. But how our base business would have done sequentially?

Vinita Gupta: Actually, it did pretty well, Anubhav, our base business grew.

Anubhav Agarwal: That would have come at the cost of prices because the other peers also have seen the trend, whosoever seen increase in volumes that have come at the cost of margins?

Vinita Gupta: As far as pricing goes, we have seen a good amount of price pressure over the last couple of years, but in the last six to eight months pricing has settled out on the base line products. So we are seeing that is a single digit price erosion which is made up by volume as well as mix.

So if you look at Q4 versus Q1, the base business growing, not materially, but growing at any day take growth over erosion and then Glumetza, of course, made a significant contribution but let us so compare to Q4 because there was a load in Q4 and then we have the seasonality impact of the Cephalosporin that would reduce Q1 versus Q4.

Anubhav Agarwal: Ramesh, personnel costs, you mentioned half of the increase is from Gavis, excluding that also sequentially then we are seeing a jump almost 12%. What is that driven by because in India people addition was largely done in fourth quarter, right?

Ramesh Swaminathan: It is also the increments that you give to people out here.

Nilesh Gupta: Increments and incentives, plus the Gavis

Ramesh Swaminathan: plus the Brazil full quarter

Sunil Makharia Last quarter full impact did not come.

Anubhav Agarwal: So should we consider this personnel cost as a base number for us now?

Nilesh Gupta: No, it will actually go down a little bit, because it is a little bit of lumpiness which comes into Q1.

Anubhav Agarwal: Now let us say majority of the spend being done this year from FY'18 onwards, what is the level of CAPEX for us will be if you were to just normalize FY'18-19?

Ramesh Swaminathan: It will come down a bit.

Nilesh Gupta: If I was to handle a guess, we have not done these numbers, but it will probably be around Rs.1,200 crores to 1,500 crores kind of number.

Anubhav Agarwal: On R&D also, if you can help because you guided at the start of the year between 12% to 15%. Would you maintain that guidance even now?

Nilesh Gupta: Yes.

Ramesh Swaminathan: Whilst on the CAPEX, one thing should be mentioned, our total fixed assets to turnover ratio is perhaps the best in the industry also. So if you take a block of three years, we generally do about 25-30% of our total EBITDA.

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

Abhishek Sharma: Just on this base business price pressure once again just wanted to understand what is the origin of this base business pressure -- is it because of purchasing groups, is it because of lower MAT rates or is it because of increasing share of Medicare Part D, what is your sense?

Vinita Gupta: It is a combination of all these elements, the biggest factor being the consolidation within our customers and the pressure for the customers plus competitive pressure.

Abhishek Sharma: What is your outlook going forward because the various participants in the supply chain are saying that these pressures are going to stay for times to come?

Vinita Gupta: We have seen a good amount of pressure on the industry from all the consolidation so far. We think, the last of folks to come together Walmart and McKesson, that is happening right now. So, suddenly have some impact on that front. But I think a good number of peers are also experiencing the same single-digit price erosion at this point, back to before the consolidation started, and that is for the baseline product, not for products where you see exclusive products with new competition, obviously you see bigger price drops on that front. I think a lot of what you are seeing it appears that some of our competitors is that they have exclusive that they are losing to other generic competitors and that leads to higher price erosion.

Abhishek Sharma: Just one question on the Biocom transaction that you did in Russia last year?

Ramesh Swaminathan: We have not done that as yet, because Russian government came out with certain conditions which said that the overall outlay needs to be at least 4x that of the current outlay. We thought it was pretty encumbering.

Abhishek Sharma: So what is your timeline to close that?

Ramesh Swaminathan: We are still working with, in fact, government to resolve this.

Abhishek Sharma: How is your Generic R&D going to be split between Pune and Gavis, how are you sort of allocating new projects as they come along?

Nilesh Gupta: The Gavis focus is primarily on controlled substances and on the Specialty side of the business and the Oral Solids, regular Generic business would primarily be done out of LRP, Pune**Moderator**: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Have you quantified what the Gavis contribution to revenues during the quarter was?

Ramesh Swaminathan: We do not disclose this and we do not disclose portfolio values.

Shyam Srinivasan: The second question is on the integration of the Gavis. How is that coming along? I believe is that you have launched most of the products that have been approved. But just any color on the integration part with Gavis?

Vinita Gupta: It is pretty much done very successfully. On the commercial front, that line has been pulled into the Lupin line, the Generic portfolio with our Generic line and Methergine into a brand portfolio as well as Methylphenidate into our brand portfolio. The rest of the integration of functional standpoint has also been completed. We have got a very strong management team on site, very strong leaders as well as management team on site to be able to drive the growth that we have planned out of Somerset, both on the Generic as well as the brand front and the team is working very hard also to file a strong number of ANDAs this year.

Shyam Srinivasan: So from a revenue perspective, have you got the full quarter impact for Gavis in the first quarter?

Vinita Gupta: We have got revenue impact, but as Ramesh mentioned earlier, not margin because of the fair value of impact on inventory.

Nilesh Gupta: We see a built in the Gavis numbers over the quarters, right, so the second half will be much stronger.

Shyam Srinivasan: Are you quantifying how much you are getting in the US Branded Generics?

Vinita Gupta: US Branded is $22 million in Q1.

Shyam Srinivasan: This has some contribution from Methergine as well?

Vinita Gupta: Yes, big part of it was Methergine.

Moderator: Thank you. The next question is from the line of Alok Dalal from CLSA. Please go ahead.

Alok Dalal: Vinita, how are you thinking about the competitive scenario in Fortamet and Glumetza?

Vinita Gupta: As we mentioned earlier, we think at least from what is visible to us is a limited number of competitors that could participate in both the products in Fortamet, we are aware of Mylan that has had an approval for the last many years and presumably is trying to get into the market, we are aware of one of the companies that potentially is working on the Generic.

On Glumetza as well, we expect two competitors; Sun recently got an approval, we expected to see them in the market by now, we have not so far, but we think they will be launching and Actavis, we have not seen the approval as of yet. So we do not know when they expect to be in the market. But both products continue to be significant contributors to the current year.

Alok Dalal: Vinita, would it be natural to expect a price drop in Fortamet after Glumetza prices have been lowered, Glumetza prices will still go down further with the entrance of two new players. Is that understanding correct?

Vinita Gupta: We don't expect a switch between Fortamet and Glumetza and we haven't seen any so far. Given the number of competitors, we expect that if the players are rational, one would still expect both the products to continue with their own prescription run rate as opposed to switching.

Alok Dalal: Because the Fortamet prices went up or followed the price increase in Glumetza. So I was wondering whether Fortamet prices may also see some drop once you have more generics selling Glumetza?

Vinita Gupta: So we are talking about potentially having Generics to Glumetza and then in the longer-term potentially also to Fortamet, but still a limited number of competitors and at present Glumetza is priced higher than Fortamet.

Alok Dalal: Any color on the filings or launches for Renvela, Renagel and Welchol?

Nilesh Gupta: We unfortunately had some setbacks with the FDA coming back on questions on both the Sevelamer and the Colesevelam products. I think the FDA is still making up their mind on what is required for these products to be approved. So we have been working to answer, but I think this will all be FY'18 opportunities now.

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

Aditya Khemka: My first question is on Gavis, again, I am just having a tough time understanding the impact. So the inventory fair valuation impact we had this quarter, and Ramesh, as you indicated this is not a recurrence, so the next quarter we will see the profits and the gross margins coming from Gavis. Is that understanding correct?

Ramesh Swaminathan: Yes.

Aditya Khemka: Nilesh, you made a comment when you said that second half for Gavis will be much stronger than the first half. So I am presuming that because you expect some launches from Gavis between now and the second half? Is that understanding correct?

Nilesh Gupta: Yes, one approval and launches and two we have new plant coming on stream in September as well and that will help some of the future launches also.

Aditya Khemka: So this new plant, is this a result of capacity constraints that is there or is it just…?

Nilesh Gupta: It is a related capacity constraint it was planned even before Lupin came into the picture. So it was planned in the general scheme of things.

Aditya Khemka: On Gavis, Vinita, you maintain the guidance of making $300 million in FY18? Is that a fair understanding?

Vinita Gupta: Yes.

Aditya Khemka: Moving on to Goa, Nilesh, I found your comment interesting, cautiously optimistic, always the best way to go, but I just want to pick your brains a little more on that. We recently had an FDA tentative approval from that plant, right? and after that they issued an EIR on the older 483. So I understand that the newer 483 is still under active review. But to your memory or recollection, do you have any event where the FDA has given a tentative approval from a plant which ultimately ended up getting a warning letter that was under 483 in the Lupin?

Nilesh Gupta: First of all, I do not necessarily see this is going to warning letter. As far as the second review, I just do not want to base everything on one particular action and that is the way why we are cautiously optimistic at this point. Obviously, if we get couple of more approvals, then we know that the FDA going down in that direction. We have pointedly gone back to the FDA with the other products that were pending approval to ask them to apply the same standards as well. I think in the next few weeks, if not in the next couple of months, we will know exactly how FDA is thinking about Goa.

Aditya Khemka: We have not seen any approval from Gavis in the last three months. So can you update us on the compliance status of the plans for Gavis?

Vinita Gupta: All their inspections have gone through successfully. They were inspected just in the last six months by the FDA.

Aditya Khemka: There are no pending 483s?

Vinita Gupta: No.

Aditya Khemka: On the US business, the pricing pressure that we have seen, at the same time, we have seen the integration of Gavis and the moving of Methergine to a Brand business. When you guide more than $300 million, do you exclude Methergine or do you include Methergine in that number?

Vinita Gupta: Yes, I do include Methergine as well.

Aditya Khemka: The impact of this price erosion, obviously you said it has to be negative by volume gain and Gavis is now completely integrated with Lupin. So, have you seen any market share increases? I tell you why, because IMS data does not really show much improvement in Gavis sales from the time we acquired it to-date. I fail to understand the basis of the optimism that we have in terms of meeting our guidance. Can you walk us through that?

Vinita Gupta: So we have the potential of gaining share, but are limited by the capacity right now. But as Nilesh mentioned, our expansion at the Gavis site is well underway. We would expect our capacity expansion to be through by September and should be able to gain share on multiple products after that.

Aditya Khemka: What about the IMS data? It does not really show any improvement from Gavis from the time we acquired it. So is it that there is some part of Gavis business that does not reflect in IMS?

Vinita Gupta: No, like I said, we have right now really integrated the portfolio into ours. The material change that we made was really on the Methergine front. So you would not see much of a change in the rest of the portfolio until we can really gain some additional shares through volume that we can bring to market from September onwards.

Aditya Khemka: But per se IMS numbers would be indicative of the performance that we have?

Vinita Gupta: I have not looked at IMS, so I cannot tell how accurate it is but all I can say is that we see tremendous potential apart from the near-term. Methergine is already well on its way and that should also ramp up through the year. On the Generic front, we have a number of products that we are planning this year that are dependent on the capacity at Somerset which we are pretty confident we should be able to get on line from September onwards.

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

Prakash Aggrawal: The question is again on the depreciation and amortization. So understand Gavis has resulted to doubling of the depreciation, amortization. But would this scale up from here or marginal scale up is what we should build in the model?

Ramesh Swaminathan: Run rate of about Rs.200 crores per quarter is on. If it goes up, it is only because it is really going to be dependent on further launches. So there is a portion which is ascribed to in fact products which have already been launched, and there are bucket of products that are to be launched. So as the products go into launch phase, even the amortization would go up.

Prakash Aggrawal: Which is only expected from second half and a year after?

Ramesh Swaminathan: Over time.

Prakash Aggrawal: On Shionogi, the proposal and the acquisition getting closed by December, just trying to understand given these are brands, which are now in the late stage, is it company level margins or what is the broad level margin trajectory?

Ramesh Swaminathan: This is much higher margins than Kyowa levels. I said the gross and net is very, very high there and we expect in fact overall margins to be pretty good.

Prakash Aggrawal: I was referring to the company level margin, sir?

Ramesh Swaminathan: But the salience of that is going to be marginal overall scheme of things, Japan itself is 11%.

Nilesh Gupta: Higher than the company level margin.

Prakash Aggrawal: One clarification on my first set of questions on Gavis, what I gauged is that all the 16 products that were approved in last year have been launched but I heard a comment saying that scale up would be only seen from second half. My understanding was that these products been launched during first half would have some scale up or these are too late two get some market share, can I just have some clarification here?

Vinita Gupta: Majority of the products that have been approved were launched by Gavis and we basically integrated the line into our portfolio.

Prakash Aggrawal: Because I was under the impression that last comment that you made in last call was that they were not launching products because the integration was happening and we would take it up in our own channel, so?

Vinita Gupta: I think we were referring to some of the litigation products like Zolpidem was one that we launched, that they would not have prepared for at risk, so we launched that product, I think there are one or two products like that and they would not have had the appetite to launch.

Prakash Aggrawal: Some direction on the margin since you mentioned that the meaningful products like Glumetza and Fortamet would see some competition from upcoming quarters. What would really be the margin drivers for second half of this year and fiscal '18 which would protect these margins?

Vinita Gupta: One, we still expect these products to contribute pretty sizeable level to our margins just given the competition, this is a scale of these products.

Second, we expect the Gavis portfolio certainly to contribute better in the second half both through combination of the expansion of the facility as well as just the ramp up with Methergine, Methergine is expected to be a significant contributor in this year as well as next year.

Third, the new products that we are planning to launch, whether through the Lupin pipeline or the Gavis pipeline, we have a very healthy pipeline right now that is pending at the FDA with good number of semi-exclusive made this year, as mentioned earlier, later this year we expect to launch products like Minastrin and Epzicom that would be significant contributors, then next year we would expect to launch a good number of our Derm products out of India as well as Somerset, we expect the controlled substances, the products that are pending at Gavis to contribute to growth rate very well certainly in the next year. It is really the strength of our pipeline that gives us the confidence.

Prakash Aggrawal: And comment on margin trajectory?

Ramesh Swaminathan: I would think the operational excellence measures and the kind of products that are going to launch would actually enable us to kind of sustain the margins over time.

Nilesh Gupta: Prakash, if I can just correct on the Shionogi part, that is a little over the company margin, but higher than the Japan margin.

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

Nitin Agarwal: Vinita, you mentioned about a couple of launches really coming through towards the fag end of the year. So from now till the period of time I guess is it fair to say that we will have incremental price erosion on the business with the two large products and there is nothing much that will be there to really compensate for it in the interim to the time those two big launches begin to come through?

Vinita Gupta: We should see some competition in the Glumetza, that is more visible of Glumetza than Fortamet and we would see an expansion of the brand business with Methergine, we are already starting to see the run rate there. So that will certainly add to our gross margins. The Gavis portfolio, expanding on the volume of Gavis portfolio will certainly help our margins.

Nitin Agarwal: Secondly, if I put this in perspective, '16, '17 barring these launches will happen, barring Glumetza and launches will happen towards the end of the year, pretty lean years in terms of some sizable launches. So is this the way you guys probably envisaged the portfolio playing out and if it has not, what essentially has led to this kind of a big sort of gap, if you will, in terms of some of these relevant launches coming through.

Nilesh Gupta: Obviously, we were hoping for products like Sevelamer, Colesevelam to come to market, Esomeprazole as well. Some of these products we are kind of pushing the boundaries. So obviously that becomes a little challenging. Esomeprazole has been disappointing of course. So we have had setback on these few products. I think the overall story remains that there is a big pipeline, there is a bunch of exclusive first-to-file as well and there will be more products to be brought to market in the future.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: On this Minastrin, I understand we have March 2017 launch settlement date. Is there a possibility we could have an earlier launch?

Vinita Gupta: Yes, we have the potential of acceleration at a certain condition.

Ashish Thavkar: In case of Glumetza, have you gone for a price cut yet or they are yet to take place?

Vinita Gupta: No, we make some price adjustments to make sure that we do not lose volume and in areas where we saw the products getting blocked.

Ashish Thavkar: So you are confident of maintaining the market shares in both Glumetza and Fortamet?

Vinita Gupta: So far the volume has been very stable in both products.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Dr. Kamal Sharma for closing comments.

Dr. Kamal K. Sharma: Thank you very much. I think your question and your thoughts are very important for us to keep our tempo for growth and future performance. Having seen a great quarter, we hope to repeat this performance notwithstanding certain innate nature of our business where we would have competition, we would have price pressure, but all the same, I think the team is fully geared to meet with the challenges. So hope to again speak to you in the next quarter. Thank you very much.

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