



“Lupin Limited Q2FY16 Earnings Conference Call”

October 27, 2015



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Moderator: Ladies and Gentlemen, Good Day and Welcome to Lupin Limited Q2FY16 Earnings 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Dr. D.B. Gupta – Chairman, Lupin Limited. Thank you and over to you, sir.

Dr. D.B. Gupta: Friends, I Welcome You All to Lupin's Q2 Earnings Call. Our Group who join this side is Kamal, Ramesh, Vinita, Nilesh, Sunil, Shakti, Alpesh and Rajiv. Our second quarter results have been below our expectations and have been impacted mainly on account of lower US Formulations sale due to the pricing pressure and no new meaningful product approval coming through. However, we do invest heavily in our R&D and remain confident of improvement in our performance with the pickup in approvals and launches in the coming quarters.

I now hand over to Ramesh – our CFO who will take you through the details of the performance for the quarter. Incidentally, today, Ramesh has also been taken on the Board of the company.

Ramesh Swaminathan: Thank You, Chairman. Friends, as the Chairman was saying, this particular quarter has been an aberration from in fact our great performance in the last several quarters. And this insipid performance has not come as a surprise because we have always been telling you that the third quarter also can be lackluster because of lack of approvals from America and potentially price erosion itself. This is exactly what happened in fact in this quarter. Net sales went up by 2% year-on-year and 3% quarter-on-quarter. We are not used to that kind of very low growth rates as you would very well imagine. US sales is down to \$174 million representing 14% year-on-year decline and 3% decline vis-à-vis the previous quarter. As I said before, this is a result of in fact lack of good launches out there. And the very fact that our brand prices eroded as you would be conscious, Suprax actually became generic in the fourth quarter of last year and that has had an effect in the first two quarters as well. Domestic business grew about 11% over the previous year. Japan as a whole posted about 2.5% growth over the last year. Consequent to the drop in US sales, our gross margins also declined by 3.5% quarter-on-quarter and 1.2% year-on-year. R&D spends of course went up dramatically, 12.2% of sales Rs.387 crores, which represents Rs.75 crores increase vis-à-vis the previous quarter and Rs.103 crores vis-à-vis the last year. EBITDA was again at Rs.713 crores lower than Rs.942 crores in the previous year. And margins were lower at 22.5% this particular quarter and this is because of various declines that we saw in gross margins, increase in R&D expenditure, higher personnel expenses, higher M&A expenses, and some lumpiness in terms of SG&A expenses. But the first six months average EBITDA comes to about 26% and our strong belief is that by the end of the year it will rebound to those levels.

We open the floor for discussions.



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Moderator: Thank you very much. We will now begin the Question-and-Answer Session. Our first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Some more color on gross margins. You talked about a few products with limited competition similar quarter last year. So is that the only reason or apart from the price erosion that we generally see, if you could just throw more light that would be helpful, because that is a big delta and the US decline please?

Ramesh Swaminathan: The decline in sales itself brings in its wake lower gross margins and there was of course a price erosion which happened... I cannot go into specific products but what stands to my mind, we have Tricor, Nicotinic Acid and of course Suprax itself which has gone generic. So, all of these actually contributed. And of course there were some margin pressure in the other parts of the business as well. Hedge losses were about Rs.10 crores which was accommodated in the sales line. I think those were the reasons for the overall gross margins decline.

Prakash Agarwal: Second question to Vinita. I saw your interview where you talked about more visibility coming starting 4Q onwards apart from the certain settlement that we have. If you could throw some light on key products that you expect in 4Q and fiscal '17?

Vinita Gupta: Prakash, we have made some portfolio optimization measures that itself should start showing in Q4 plus we are expecting some of the material products approval... Omeprazole we have responded to all of the FDA queries and we expect an approval. We have Glumetza launch targeted for February and we have an approval for the product. So that is as certain as it gets. We have other product approvals that we expect Bupropion is one and if you look at the first half of the year we had 8 product launches, last quarter we had 7 product approvals, we are getting better visibility on our applications from the FDA, we have target action date from 60% of pre-GDUFA filings, we expect a target action date for the rest of our filings, FDA has said that they intend to give target action date to 90% of the pre-GDUFA filing. So we are seeing the pace of FDA going up, we are seeing the approval pace going up. It just needs to be for the right products and we expect some of these material products approvals over the next 6-months.

Prakash Agarwal: Just a follow up on this; so should it not pick up from third quarter onwards given that for Fortamet we have already taken the price hike?

Vinita Gupta: Yes, some of it should take effect from Q3 but more so in Q4.

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

Anubhav Agarwal: Just a couple of questions: First is roughly, what percentage of Fortamet sales will be of fixed price contract?



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- Vinita Gupta:** Anubhav, we do not give out that kind of information.
- Anubhav Agarwal:** But in your earlier comment when you mention that some benefit may be available in third quarter. Can we assume that in the fourth quarter the full benefit will be available?
- Vinita Gupta:** Like you noticed, there are some fixed price contracts, some government contracts, but the net impact we should start seeing hopefully in Q4.
- Anubhav Agarwal:** On the Mandideep facility because that is the only facility on the Formulations side, which I do not see that that has been inspected at all in last four years. Is that true?
- Nilesh Gupta:** I think in the last three years.
- Anubhav Agarwal:** But, Nilesh, when is inspection expected because this is like one of the rare instances where important facility not been inspected for the last three years?
- Nilesh Gupta:** It has been inspected fairly enough times as such. We have seen patchiness. We have seen the FDA come into some sites even once a year and other sites longer. So, at one level we had 8 inspections in the last 10-12-months. So we are obviously ready at any point of time, but whenever they come, that site is at such a really good standard for itself.
- Moderator:** Thank you. The next question is from the line of Girish Bakhru from HSBC. Please go ahead.
- Girish Bakhru:** Firstly, again on approvals. You have had very good pace of approvals in YTD. I am just comparing some peers are also seeing that their late cohort filings are getting approved before you publish largely pre-GDUFA filings that are these approvals. So has there been an instance where you have filed a product say in the last two years and it has got approved?
- Nilesh Gupta:** The FDA goes really strict from October 2014. So, I do not think anybody has got approvals from that period. But those products will come hopefully well within two years from an approval perspective for us and for other people.
- Girish Bakhru:** How many products are filed in the quarter?
- Vinita Gupta:** We filed 5 products in the last quarter.
- Girish Bakhru:** In the last call you have guided some 20 filings from Gavis alone. Is Gavis doing that run rate now?
- Vinita Gupta:** Gavis I know by the end of this year they will probably do 8 filings and then we have the next quarter as well, but probably not 20, but closer to 10 to 12 filings.
- Nilesh Gupta:** Between Lupin and Gavis, we should probably do north of 40 filings.



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- Girish Bakhru:** On the pipeline, I just wanted more color even from the last call you had given clarity on certain 20-odd products in Derma and some smaller number in Controlled Substances. When do you see Gavis literally showing Controlled Substance approvals in terms of timeframe -- would it be like within two years or post that?
- Vinita Gupta:** They actually have already received approvals on the Controlled Substances just this past quarter, they got approval for Oxycodone, they got approval for Methylphenidate, they got approval for a third product that I do not recall, but they already have approvals for Controlled Substances. So that would continue.
- Girish Bakhru:** But, you had mention on the call that none of the products Gavis would be like say \$50 million plus, right?
- Vinita Gupta:** That is right. We did not see any products at that point in time that would generate \$50 million.
- Moderator:** Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** Ramesh, when you spoke about margins reverting to the original level of 26% sometime back. Could you just probably give us some more granular details on what is the driver of this confidence, because some of the rise in expense ratios like R&D, etc., is pretty structural in nature and if you could help us understand that how should we think about margins from FY17 perspective, because FY16 fourth quarter, we have Glumetza launch, we have consolidation of Gavis, but on a more steady state basis, how should we be thinking about margins?
- Ramesh Swaminathan:** So when it comes to margin itself, it is a function of in fact the kind of revenues that you get, the cost that you incur and of course the host of other measures that you take. So, on the revenue front we do expect in fact newer products to click in from the end of the third quarter or fourth quarter onwards and of course and optimization that Vinita spoke out on the portfolio front itself. So those could contribute so much as so far as the revenues are concerned. On the cost front, we have been a lot of things, as you would be aware in terms of Six Sigma implementation across factories, procurement excellence, R&D productivity, sales force productivity, and the like. So all of this also helps in terms of improving upon the margin itself. You would also realize that we are investing ahead of the curve in terms of R&D spends when comes to people on the ground at the sales force level and so on. So it is never going to be linear but we do believe that 22.5% is indeed not going to be our average. You would expect that to pick up because of this year the kind of products that we would be launching, and for sure I think that certainly come through by the fourth quarter. So, while we spoke out 26% being an average it is towards the end of the year and the first half of course represents about 26%, third quarter you might somewhere between 22.5% and 26%, but fourth quarter should be much better.



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- Anmol Ganjoo:** At a consolidated level, what kind of R&D do we kind of as a percentage of sales are we looking at from an FY17 standpoint given that we will be consolidating Gavis for the full year in FY17?
- Ramesh Swaminathan:** This particular quarter it is more because of the fact that the overall revenues have not grown, so that is why you see about 12.2%, but I would imagine for the full year we like targeting at around 11% to 11.5% and that is where we think it could be, but the way I would see R&D itself, we are not battling uncertainties of science here, it is more like when do we spend rather than do we spend it at all. So I think you should be happy that we are spending this.
- Nilesh Gupta:** I think the question was for FY 17. It will be similar around 11%.
- Anmol Ganjoo:** Vinita, you spoke about that you are not envisaging \$50 million kind of a product last quarter the Gavis level. Has that assessment undergone any kind of change?
- Vinita Gupta:** There are so many changes in the marketplace, we are constantly looking at a competitive landscape to see what we can make out of opportunity. We are very gung-ho on the Gavis portfolio, we see a number of opportunities where we can add value to the Gavis portfolio, but I will not comment on revenue per product. We just see more opportunities than we are looking at a couple of months ago at this point.
- 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 domestic business. While I understand that the monsoon obviously impacted performance of some of the Anti-infective, it did seem muted. Was there any other one-off in the quarter particularly related to domestic business?
- Shakti Chakraborty:** I think you got the point very right, I think the Anti-Infective market did not grew at all, if you look at the total industry grew only by 3%. In our business we have got two buckets -- in one bucket we have got Chronic segments. If you look at our other therapy areas like Diabetes business has grown by 19%, Cardiac has grown by 19%, Respiratory grew by 18%, Gynecology grown by 54%, but we have got ATT, that is Anti-TB business as also Anti-Infective business and also we have got some generic component. So, they contribute about 30% of the business. That is one drag that we have. The ATT business is not growing, market is degrowing right now. So if you look at these 3 portfolios of ATT, Anti-Infectives and our generic-generic play and they are not very strategic for us also. They have been a drag for us. That is one main reason why the growth is not there. Otherwise, all the other segments, chronic and semi-chronic areas have grown very-very well.



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- Neha Manpuria:** On the Japan business, Kyowa seem to have sort of softened for the last three quarters and this quarter even if I look at on a constant currency basis grew just 2%. How should we look at that going forward and also what drove the muted performance in the quarter?
- Nilesh Gupta:** I think that just linked to some lumpiness at this point of time, we are expecting two or three approvals in the December timeframe, and that will help us bring back the growth to that 6% to 8%. Kyowa and Japan in general, we believe will probably grow at 8%-10% over the years. So, that is the kind of growth that we would expect anyway. So this is that lumpiness right now and we expect it to even out by the end of the year.
- Ramesh Swaminathan:** The way the government is actually working on in fact in generic industry, one expects that particular market to grow, the overall generic sales is expected to go to 60% in the next three years from what it is currently. So that would mean the market will expand plus we are working on several things to actually grow that business. We believe it will bear fruit in the long-term.
- Neha Manpuria:** Since the price revision in Japan is I think again coming up in April 2016. Should we expect quarter-on-quarter performance to again strengthen towards the March quarter which usually happens before the price revision, would that be a fair assumption?
- Nilesh Gupta:** Typically, that happens because people would take in a little bit more inventory at the earlier price before the price revision.
- Moderator:** Thank you. The next question is from the line of Manoj Garg from BofA Merrill Lynch. Please go ahead.
- Manoj:** This is Manoj. Just two questions; Vinita, Gavis has launched few new products over the past three-four months. But in terms of new approval, they have only got one new approval. If I recall correctly that in the last con-call what we have indicated that we are expecting 40-50 approvals from Gavis over the next 2-years to make the revenue to around \$300 million. So how confident we are in terms of that trajectory now?
- Vinita Gupta:** We are sure that they have got three approvals in the last quarter and the other applications that they are expecting approvals for the next quarter, next four to five months is looking pretty good as well to us.
- Manoj:** So we remain confident about that 40-50 launches over the next two years from Gavis?
- Vinita Gupta:** Yes.



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- Manoj:** The issue which is going on right now in the US market about the drug pricing issue. So just want to understand your thoughts on the same and if there is a pick up in the US FDA approval timeline, how it can affect the realization in the margin for the industry as a whole?
- Vinita Gupta:** You are talking about the fact that it will become more competitive...
- Manoj:** Become more competitive obviously because of pick up in approvals and all.
- Vinita Gupta:** My sense that most of our competitors have similar challenges that they have that they have had a lot of competitive pressures, they have had a lot of margin pressures coming out of consolidation and because of the fact that companies have been lacking meaningful product approvals, I think the majority of the industry is looking forward to more approvals when I look at some of our peers in the industry, all of them talk about similar challenges. So one would think that our competitors or peers would be rationale and be strategic in the way they price products.
- Nilesh Gupta:** Also, with QBD and a lot of the other requirements, there will be a rationalization of filings overtime as well. So, we are starting to see a little bit of that with the number of filings going down in the last year and I think trends like that are here to stay.
- Manoj:** Vinita, particularly like Valeant in their recent disclosure where they have indicated that while at a portfolio level they have taken around 10% kind of price hikes, but the net realizations to the company was only 1-1.5%. Now, given the fact that there is a significant price hike there in terms of Fortamet, what could be the net realization which can happen to Lupin over the next few quarters?
- Vinita Gupta:** I am not going to comment on pricing.
- Manoj:** Ramesh, you have well-articulated how the margins are going to be in the second half and definitely the Q4 margins will be north of 26%. How do you see margin trajectory in the FY2017?
- Ramesh Swaminathan:** So as I said it is not going to be linear, it will be a phase of consolidation before it actually starts growing, but FY17 is one particular year where we expect several newer products to be launched... pretty decent ones at that and a number of products of course will also be much higher. I would imagine that there would be a margin expansion for sure in FY17 followed by perhaps consolidation in FY18 also because we have got this aspiration of high growth for the next two-to-three years given the kind of pipeline that we have. So I do see that there would be margin expansion for the next few years to come.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.



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- Sameer Baisiwala:** Vinita, quickly for Fortamet, are you not required to take price protection charge?
- Vinita Gupta:** Sameer, I am not going to comment on pricing.
- Sameer Baisiwala:** Because you took price increase I think in the September quarter, but there does not seem to any charge in your reported numbers. So just curious.
- Vinita Gupta:** We have pretty strong policies from accounting perspective on pricing reserves as well as chargeback. So we are very comfortable with our accounting from a revenue perspective.
- Sameer Baisiwala:** A related question, it looks like thus far Actavis has not taken the price increase in Fortamet. Is this something that worries you and is there a chance that you may be required to roll back your price increase?
- Vinita Gupta:** We are going to monitor the situation very carefully and see what we need to do to make sure that we are competitive.
- Sameer Baisiwala:** Ramesh, a quick question on the balance sheet. Since March '15, it looks like the inventory and receivables have both gone up in the six months by Rs.400 crores each, so about Rs.800 crores delta, whereas the sales have gone up just about Rs.100 crores in the six months. Anything that you want to share on this?
- Ramesh Swaminathan:** So we are aware of the fact that the operating working capital has increased; it closed about 106 days currently. So we are monitoring the situation. A lot of this stocking up actually happens in anticipation of launches and the like. So obviously when there is a need to optimize on it, we will do it, and we are conscious of the fact that there has been a buildup.
- Sameer Baisiwala:** And the receivables?
- Ramesh Swaminathan:** Likewise, all our working capital has gone up, but not so much on the receivables front, it is more on the inventory, receivables is more under control.
- Sameer Baisiwala:** On the balance sheet, which is your goodwill on consolidation has also gone up by about Rs.300 crores versus March to September. Is it the Biocom?
- Sunil Makharia:** This is on account of the Brazilian acquisition Medquimica.
- Moderator:** Thank you. The next question is from the line of Suriya Patra from PhillipCapital. Please go ahead.
- Suriya Patra:** Possibly I miss that comment on the other operating income front. So what has that doubled in this quarter?



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- Ramesh Swaminathan:** Government has come out with a lot of incentives for actually exports both the product as well as the services front. So we have taken advantage of that.
- Suriya Patra:** So it is just the export incentives that you are talking about which has doubled the number this quarter?
- Ramesh Swaminathan:** Essentially that and a few things like dossier sales and the like.
- Suriya Patra:** There is no one-off kind of thing and this is a number likely to be recurring?
- Ramesh Swaminathan:** It is related to in fact services.
- Suriya Patra:** So it will be normalizing subsequently, right?
- Ramesh Swaminathan:** Yes.
- Suriya Patra:** On the Gavis front, just a single approval possibly we have seen, whereas we had given some indication that possibly 20 odd annual approvals from the Gavis front. So, whether we are targeting the similar number in the subsequent year end this year as well or how does it?
- Vinita Gupta:** As I mentioned earlier they got three products approval in the last quarter, they have three product launches also in the last quarter. So they are continuing to get a good number of approvals every month.
- Suriya Patra:** Any reason that the acquisition is getting delayed?
- Vinita Gupta:** No, we are going through the Hart-Scott-Rodino formalities at this point. So we expect FTC to clear the acquisition sometime this quarter.
- Suriya Patra:** So that means our assessment about Gavis at the time of acquisition whatever that is there that is intact or that has changed?
- Vinita Gupta:** Intact, that is right.
- Suriya Patra:** On the US matured portfolio front, what is the kind of a price erosion that we have seen for our portfolio YoY?
- Ramesh Swaminathan:** On an average we do expect it to be around 6% while last year of course was a period actually you saw a lot.
- Moderator:** Thank you. The next question is from the line of Nimish Mehta from Research Delta. Please go ahead.



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Nimish Mehta: Firstly, on Glumetza potential sales, we have been hearing that there are charges on value and that they have kind of faked the sales numbers, a lot of the sales of the product that they are already selling may not be the right one. So to that extent, if you could comment on the potential addressable size of Glumetza in dollar million that will be helpful?

Vinita Gupta: We have actually seen a good increase in Glumetza revenues, in the prescription the units went down, because of the price increase there has been a good revenue increase in the product. And we know that Valeant responded to the allegation on the sales to specialty pharmacy. So we do not expect that really to have any impact on the Glumetza numbers.

Nimish Mehta: So whatever is the last run rate at which Glumetza after the decrease in volume and increase in price, what do you think would be the annualized addressable branded market value for you?

Vinita Gupta: I think it is between \$150 million to \$175 million or thereabout. We are tracking it very closely because there is obviously a decline in volume because of the price increase, so we are monitoring it to target the right quantity for launch.

Nimish Mehta: There are three Metformin XRs in the market – Fortamet, Glumetza and the last as I understand is Glucophage XR which is genericized. So, what I am trying to understand, do you not think that there will be an impact in the volumes of both Glumetza and Fortamet post the price increase such that a lot of the patients may shift to Glucophage XR, is there a possibility like that?

Vinita Gupta: We have been tracking the whole Metformin and the related products, therapeutic area market very closely. There is certainly some positive impact in the volumes of Fortamet that we see.

Nimish Mehta: But Fortamet we have not taken the price increase as of now, right?

Vinita Gupta: We are tracking the market on a continuous basis and we will determine what we need to do from a product optimization standpoint.

Nimish Mehta: I am just trying to understand, whether the Metformin market remains price-sensitive such that any increase in pricing will have a proportionate decrease in volume, is that a fair understanding, especially because there is a Glucophage XR which is a completely commoditized generic product?

Vinita Gupta: We have not seen a change on the overall volume of Metformin. Since the Pioglitazone had an issue, Metformin volume had gone up year-over-year in the last couple of years and we continue to see that.

Nilesh Gupta: I think we will find out in the next couple of quarters on where the market shares move.



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- Nimish Mehta:** If you can just quantify the impact of the Brazilian acquisition on this quarter or the YoY growth organically in the sub-segment ROW market or whatever?
- Ramesh Swaminathan:** It is early days for Medquimica. So it is actually very-very marginal on the current quarter's financial. It is hardly anything.
- Moderator:** Thank you. The next question is from the line of Nishit Shah from Ambika Finance. Please go ahead.
- Nishit Shah:** You filed 5 ANDAs this quarter. Could you throw some color on which therapeutic groups these are in.
- Nilesh Gupta:** We do not typically talk about this, but there were a few Derm products and a couple more interesting Oral Solids. So, overall the pipeline this year is geared towards a lot of Complex Oral products and Derm and we are progressing well on that.
- Nishit Shah:** Could you throw some color on the progress on Complex Injectables that you are working on?
- Nilesh Gupta:** So, we have been making some good progress as far as the Complex Injectables are concerned. There are three products in the pipeline and these products obviously have to go through animal studies and then they have to go through eventually human studies. For the first of the products the animal study is looking good and we are progressing on that, and the other products are moving along nicely as well. I think if all goes well we should be in the clinic next year with at least the first one.
- Nishit Shah:** My next question is the run rate in the US. This quarter obviously there was some degrowth of about \$177 odd million. With Gavis, how do you see the run rate moving from fourth quarter onwards with lot of approvals coming in, do you think you should be hitting around \$250 million plus?
- Vinita Gupta:** We certainly see the run rate improving. Sequential basis we had an erosion in our revenues to the extent of \$7 million primarily because we have pricing, competitive pressures on the existing portfolio and no material new product approvals. With the portfolio optimization efforts that we have put in place, we expect to see improvement in Q4 and maybe to a certain extent also in Q3. And with the Gavis integration, we should see some impact in Q3 if it closes in November and more so in Q4. And then we have the additional product approvals come through that we are looking forward to like Eesomeprazole, Bupropion and of course Glumetza launch which should help Q4. So we expect Q4 should definitely be much better than the last two quarters and Q3.
- Nishit Shah:** And the run rate thereafter should follow?



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- Vinita Gupta:** Right.
- Moderator:** Thank you. The next question is from the line of Surjeet Pal from Prabhudas Lilladher. Please go ahead.
- Surjeet Pal:** Vinita, without Gavis in recent times you had highest run rate in US is around \$217 million. Given the kind of price revision happening in your key products and the possible launches with the completeness of filing and the question is we have already replied with Q4 and FY2017, do you think your quarterly run rate could cross \$217 million?
- Vinita Gupta** We obviously are optimistic that our run rate should cross the peak so far obviously. That is why we are investing into our pipe line into Gavis. We believe that we should be able to grow our business to a higher level than we have had so far.
- Surjeet Pal:** No, my question is that if I put for a time being Gavis out of the context and only taking about the Lupin's own business or with your core business, do you think with this core business we will be able to achieve \$217 million or beyond?
- Vinita Gupta** With the product pipeline that we have in place, it is a very strong pipeline and the rate of approval we think we should be able to starting the impact of our pipeline and should be at \$250 million plus hopefully from Q4 onwards with the kind of products that we have, that we expect to launch in fiscal year 2017 we should be at a million dollar plus.
- Surjeet Pal:** That means roughly around 75 million vis-à-vis the current quarter you are expecting additional US revenue Q4 onwards?
- Vinita Gupta** I am going to talk about every quarter, but directionally you should look at based on the pipeline that we have in place, we have the confidence that we can grow the business to \$250 million a quarter.
- Surjeet Pal:** My next question is for domestic growth. Given the kind of growth you have been seeing in acute therapy and the 30% kind of the track what will be the suggested guidance for this year domestic growth?
- Shakti P Chakraborty:** We expect the growth to be somewhere around 17%.
- Surjeet Pal:** Your second half will be fantastic?
- Shakti P Chakraborty:** You can call it fantastic, we are saying it is going to be optimistic. Acute Care market is not going at all, I think it is 3% growth but then definitely the markets where we are really focusing they are doing very-very well, I think I shared some time back all the core areas of products is doing very-very well.



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- Surjeet Pal:** So even at a current run rate of growth you expect 17% of the full year?
- Ramesh Swaminathan:** We definitely expect that.
- Surjeet Pal:** Any comments on Linagliptin launch?
- Ramesh Swaminathan:** We are going to launch in the November middle, I think we are going to get the stocks when we are launching.
- Surjeet Pal:** So in next 18-months how much sales you could possibly able to get considering that other two Gliptin already present, so where do you place yourself – is the second or third?
- Ramesh Swaminathan:** If you look at the total market, I think we have already seen in the market is around 50-60 crores Linagliptin is the best molecule. I can tell you we expect about Rs.100 crores business in three years' time.
- Moderator:** Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.
- Prakash Agarwal:** You spoke about already got approval for more than ten products during the last two quarters. Just trying and understand that we have been able to launch all of these or we would expect no more launches. I understand these are not very limited competition products, but incrementally would help the US run rate going. So out of the 10 plus approvals, how many we have launched?
- Vinita Gupta:** In the first half we launched 8 products and just in the last couple of weeks we have launched a few more. The state of approvals as well as launches have gone up.
- Prakash Agarwal:** We normally share in terms of the products that we have like Welchol and the other key products like Renvela and Renagel. So are they seeing visibility in the first half of fiscal '17 or they are getting delayed?
- Nilesh Gupta:** No, at least one of them should be there in the second half of fiscal '17. Right now, at least in FY'16 we do not see any of those four products coming. We see generally at late FY'17 products, so not in the first half of FY'17 either. But all of them whether it is late of FY'17 or on the very start of FY'18 all the four products should be in market.
- Prakash Agarwal:** On Yaz performance, did we see the run rate ticking up or it is a flattish kind of performance for us?
- Vinita Gupta:** I do not have the market share with me right now, Prakash, but we can give it to you offline.
- Moderator:** Thank you. The next question is from the line of Nitin Agarwal from IDFC. Please go ahead.



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- Nitin Agarwal:** Vinita, on Nexium, are we expecting an approval now? I guess there are only 5 generics in the market. So how does the opportunity really look for us going forward?
- Vinita Gupta:** There obviously it is a smaller opportunity than we had expected for the current fiscal year, but nevertheless it continues to be an attractive product. Even as seventh player I think with assuming that with the last approval of Torrent's approval plus an AG, assuming that we are seventh, it is still attractive opportunity.
- Nitin Agarwal:** In your sense, what is really making the dynamic being what they are? 6 players still a fairly large number for a product which is about \$2 billion in size. So are there any specific dynamics in play in this market?
- Vinita Gupta:** It is a large product and it is a high volume product.
- Nilesh Gupta:** It is also a complex product.
- Nitin Agarwal:** Nilesh, you mention about these four opportunities. So I guess you were mentioning Renvela, Renagel, Welchol and which is the fourth one be that you said would be FY17 second half now?
- Nilesh Gupta:** I got confused, but it is the two, Sevelamers and the two Colosevelams, the tablet, the FOS for each of those two.
- Nitin Agarwal:** Vinita, on the decline that we saw QoQ on the US business despite the launches that are happening, we have seen second sequential quarter of decline. So is the successive pricing pressure which is coming because the last day of consolidation happen in the distribution business about a few quarters back?
- Vinita Gupta:** If you see the decline from Q1 to Q2 it was \$7 million and part of it was pricing pressure... normal pricing, 6% price pressure that Ramesh spoke about and part of it was the delta on Cephalexin, we had load in, in the first quarter for the Generic business and Suprax by Generic and obviously it was not at the same level in Q2. So those are the two major contributors actually.
- Nitin Agarwal:** On this whole Metformin ER space, so we will have exclusivity which will go on till about August of next year, there are already two more tentative which are there in the market. How does should one look at the opportunity in the sense, is there a substitutability across Glumetza and Fortamet or how does the whole landscape will play out of these products which pretty much stand on their own and increased competition is in one of the product categories will not really have too much of an impact on the other one?



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- Vinita Gupta:** We are monitoring the market share of the products very closely, we do think the brand on their own, and, of course, right, Glumetza, we think that market is going to be available for our Generic versus Fortamet certainly with product going generic, with our generic and the size advantage that we bring we think there is a good compelling logic for us to take a good part of the share.
- Nitin Agarwal:** How should one look at this incremental generic competition in Fortamet? We have not seen any new P4 filings are there on the product. So does that mean that no one else would have filed or just that innovator probably has not really bothered to sue them back because it is not such a big product for them anymore?
- Vinita Gupta:** It is hard to say.
- Nitin Agarwal:** Is it fair to say that remains like a risk for us in terms of some unknown sort of competition coming somewhere at some point in time going forward?
- Vinita Gupta:** Yes, for sure, it is a risk.
- Moderator:** Thank you. The next question is from the line of Saion Mukherjee from Nomura Securities. Please go ahead.
- Saion Mukherjee:** Nilesh, my first question is regarding the timeline you shared for some of these products like Welchol and Sevelamer. It seems to be a delay of a year since we last interacted. I understand you had target action dates for these products. So, is there any additional development which is leading to the substantial delay?
- Nilesh Gupta:** No, on one of them we had a query from the FDA and we have addressed that query and responded to them in October and that is the reason why we believe that it be 12 months to get the approval. So, that is why it will come to H2 of next year. On a couple of them we have really got only target action dates of Q4. So that is when we expect the FDA will give us the question and then we respond to that quickly. And depending on the nature of the question, the approval may come sooner or later. If it is something very simple we can address it very quickly and answer. If obviously it is something more major, then it goes into that one year loop. And that is the reason there is limited visibility, the FDA is also changing their standards on these products as they go along and that adds to the complexity.
- Saion Mukherjee:** Anything on Prevacid ODT?
- Nilesh Gupta:** Nothing at this point of time.
- Saion Mukherjee:** The Goa facility after the inspection of 483, what is the status, how many approvals you have received since then?



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- Nilesh Gupta:** We have received a couple of variations and two approvals from that; one was a few weeks after and other one was two months after the audit. The approvals are obviously flowing post the inspection and 483s as well. We believe we have addressed all the concerns of the FDA, we have responded, we have sent updates as well, and we are hoping for a quick close out of this soon.
- Saion Mukherjee:** One clarification, Vinita. I think you mentioned about Glumetza you are kind of monitoring the pricing and the volume decline. So you are saying that the market opportunity currently is around \$170 to \$200 million on an annualized business, that is what you mentioned?
- Vinita Gupta:** Yes, \$150 million plus.
- Saion Mukherjee:** Last time we have given some guidance on US growth and overall growth, you talked about margin earlier in the call. Any guidance you would like to give us given the first half performance for FY16?
- Ramesh Swaminathan:** We generally do not give any guidance, as you know, Saion, but enough to say that we believe that the second half of the year would be better than the first half significantly.
- Moderator:** Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.
- Anmol Ganjoo:** On the base portfolio, you are talking about a 6% year-on-year decline in pricing. Is my understanding correct or this is on a blended basis where we also take some of the big launches we had last year?
- Vinita Gupta:** It is in the base portfolio.
- Anmol Ganjoo:** Where are we in the cycle from a structural understanding standpoint this 6% most likely to be repeated or you think it is pretty roughed out, what is the pricing outlook on a base portfolio?
- Vinita Gupta:** It is hard to say but the fact is we think that all of the major competitors threats and the customer consolidation effects I think we have already seen. So from that perspective we should see the single digit erosion which we have seen pre-last year but for the one-off event. And if you look at it since March of last year we have not really had a material significant product launch. From that perspective our base business we would hope it is fairly stable at this point.
- Anmol Ganjoo:** So it is fair to assume that we do not expect sequential deterioration of this portfolio pricing from here on, right?
- Vinita Gupta:** Like Ramesh said, the annualized basis we should probably see a 6% overall erosion.



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- Anmol Ganjoo:** Two housekeeping numbers I want to confirm. The other operating income, the quarterly run rate that we should be working with is, what is more representative, the Q1 number of close to Rs.75 crores or Rs.140 crores as a consequence of the export incentives that we have got this time around?
- Ramesh Swaminathan:** I think the answer is somewhere in between.
- Anmol Ganjoo:** On the ROW the Rs.288 crores sales number, seems to be a sharp increase. Now, you made some comments where you said that the impact of the Brazilian acquisition this quarter does not get reflected.
- Ramesh Swaminathan:** Not so much really, it is there from a profit perspective, from a sales perspective it is still there, but it is not as big as you would imagine
- Nilesh Gupta:** But the run rate is good, we expect that run rate to continue.
- Anmol Ganjoo:** You spoke about certain M&A related expenses. Could you just throw some more light on that as into where they are in the line items and what are the exactly...?
- Ramesh Swaminathan:** Manufacturing and other expenses captures, in fact it is the bucket of other expenses that has been captured out there. So as you would imagine, lot of this is lumpy, we had some sales, promotion expenses and so on, but you also have M&A expenditure, so we have been scouting around for a lot of deals in the last couple of quarters, so it is captured out there, due diligence and legal expenditure and the like.
- Sunil Makharia:** These are the expenses which are not eligible for capitalization.
- Anmol Ganjoo:** So it is not any charges related to Gavis for preempting of any of those expenses, right?
- Ramesh Swaminathan:** If I had paid legal expenses for Gavis it would come in there, there is Biocom, there is Medquimica, there are a couple of other things that we are looking at and so on. We might actually close the deal but at the same time we have to look at a couple of others also, right.
- Anmol Ganjoo:** On Welchol we are holding on to the 4Q launch guidance that you spoke about, right, that stays intact given our correspondence with the USFDA?
- Vinita Gupta:** No, it is going to be 4Q launch.
- Nilesh Gupta:** Welchol we are actually seeing in the late next year.
- Moderator:** Thank you. The next question is from the line of Farhana Lambe from NVS Brokerage. Please go ahead.



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- Farhana Lambe:** Sir, I want to understand the rise in the short-term borrowings which has risen to Rs.1,792 crores. Also, if you could throw some light on the plunge in the other income?
- Sunil Makharia:** As you must have seen the press release, of course, on the net basis the borrowings are higher than the cash balances and debt equity ratio is 0.01. So, on the gross level the borrowings were around Rs.1,900 crores and mostly they were in the form of short term loans. So interest on those borrowings have been taken reflected in the P&L account.
- Farhana Lambe:** So those borrowings have risen so much, what could be the reason?
- Sunil Makharia:** This is for the normal day-to-day business requirement, more like working capital loans or export financing and those things, nothing for the time being for acquisition funding.
- Ramesh Swaminathan:** If we are incurring capital expenditure, of course, there is blocking on kind of working capital, we paid for in fact our South African subsidiary... the full staking bought over. So all of this actually will impact cash outflow right.
- Sunil Makharia:** To your second question, actually in the last quarter there was some exchange benefit that was there which is not in this quarter that is why other income has been on the lower side. Other income mainly consists of two items which is dividend income and the foreign transaction gain.
- Ramesh Swaminathan:** We also said we have some cash surplus at the end of the last year and we were actually putting it across, we were having the deposits and the like. That income has obviously come down because the figure is not there anymore.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Ramesh, have you tied up the financing for the Gavis acquisition?
- Ramesh Swaminathan:** Yes, Sameer.
- Sameer Baisiwala:** Anything that you can share how is the pricing, etc.?
- Ramesh Swaminathan:** Fairly competitive and we could be sure that we borrow at rock bottom rates.
- Sameer Baisiwala:** So based on that, it would be earnings accretive from the word go.
- Ramesh Swaminathan:** Yes.
- Sameer Baisiwala:** Why would people medically speaking be taking Fortamet and Glumetza which are far more expensive than Glucophage which is also Metformin XR?



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- Vinita Gupta:** A lot of the markets have switched from Pioglitazone to the Metformin and I think the whole category has benefited from it, whether it is Metformin or Glumetza... I do not recall the percentage market share that Glucophage XR has on the category. But Glucophage XR is the old BMS product. So that would probably have a pretty well established base line while Fortamet and Glumetza are the newer products. So one would expect to certain extent the physicians still continue to have the brand loyalty to the different products.
- Sameer Baisiwala:** It is a question of marketing or is there a differentiation in the products per se?
- Vinita Gupta:** No, I think it is primarily brand loyalty. After the product goes generic, the physician is still writing the product and generics are obviously substituting it as long as formulary do not block. I would think that from the pricing perspective there is not much of a challenge of one versus the other.
- Sameer Baisiwala:** Is there risk at managed care insurance peers put pressure and say that, look we are not going to reimburse and try to force the shift of patients to the cheapest option?
- Vinita Gupta:** When we look at optimizing our price adjustment we take a look at all of the different angle from retail standpoint, from a peer stand point, from patient standpoint and felt fairly comfortable that we should not see a drop in volume.
- Moderator:** Thank you. We will take our last question from the line of Abhishek Sharma from India Infoline. Please go ahead.
- Abhishek Sharma:** I had two questions to Vinita. You spoke about portfolio optimization. So I just wanted to understand what exactly you are planning to do and how it would impact the top line?
- Vinita Gupta:** One is price adjustment, where we saw justified on our entire portfolio, we have seen a lot of price erosion, but we made some adjustments as well. And second is on the brand side of the business, we made sales force optimization efforts, looked at the brands that are growing and certainly the season the next six months with a flu season, we focused on the anti-infective versus the smaller products like Alinia to be able to get the most out of our existing portfolio.
- Abhishek Sharma:** Around the Gavis portfolio, are you seeing some sort of price erosion in Gavis portfolio as well?
- Vinita Gupta:** Not as of yet.
- Abhishek Sharma:** I am sure you are keeping a close track on how things are playing out there.
- Vinita Gupta:** Yes, they are doing fairly well from revenue and EBITDA standpoint.



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Abhishek Sharma: So basically the business would be in pretty much the same shape that you anticipated it would be?

Vinita Gupta: That is right.

Dr Kamal K Sharma: Thank you, everyone for your questions. And as you heard the team say we have not been happy with our own performance because it is below our own expectations. But having said that we look forward to a positive movement partially in Q3 and substantially in Q4 and thereafter. And therefore I just want to assure all of you that Lupin growth story remains intact and we can look forward to some very good growth Q4 onwards.

Moderator: Thank you very much, members of the management. On behalf of Lupin Limited this concludes this conference call. Thank you for joining us and you may now disconnect your lines.