

Operator

Ladies and gentlemen, good afternoon and welcome to the Pfizer Third Quarter Results Analyst Conference Call. We have with us today Mr. Aijaz Tobaccowalla, Managing Director and Mr. S. Sridhar, Finance Director. As a reminder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I now hand over the conference to Mr. Aijaz Tobaccowalla. Thank you and over to you, sir.

Aijaz Tobaccowalla, Managing Director, Executive Director

Thank you very much and good evening, ladies and gentlemen. I'd like to welcome you to our Q3 2013-'14 results for Pfizer Limited. I have with me on the call S. Sridhar, who as you all know is our Finance Director. Many of you have actually been asking us to schedule a call to also discuss the wide results. We're happy to start doing this from this quarter as the both the companies still run as two listed entities and the merger process is still underway. We will discuss the performance of the company separately and hopefully you will understand that.

In this respect, we will share with you Pfizer Limited's performance for the quarter three, take up question related to Pfizer Limited and then following this, we will take on the results for Wyeth Limited and its associated questions. We just think as a protocol way that will be the best way for us to do it. We deprecated if you could restrict your questions to Pfizer and/or Wyeth at its respective times.

Let me -- establishing, you guys have certainly by now seen the published results of Pfizer Limited which were declared on Jan 31st of this year. And let me start talking a little bit about the pharma industry as a whole. The India pharma market as of MAT November '13, was growing at about 9.2% as per IMS. The industry size has been around 77,800 odd crores. But what's been interesting is we've been doing a little of bit analysis as to where the growth is gone and where the growth is coming from and just to give you a little perspective from what we have at least seen.

A majority of the growth actually are being driven by some of the local firms. But interestingly above and beyond that, the top 10 companies are growing at 7% which is below the IPM level. Within there, the top 10 Indian companies are growing at 10%, whereas the MNCs are only growing at 2%. An IMS is reported for Pfizer, a growth of about 5.5%.

Now the question obviously comes up as you know, why is this happening? We think a component of this certainly could be attributed to the new drug pricing policy and some of the trade issues that have adversely impacted probably the larger firms more than others. The value growth of IPM, the India Pharma Market has come down from about 15.2% MAT November '11 to 9.2%. And I don't think we've seen single digits in a very long time. But that is also a result of a drop in volumes which is a little bit more concerning.

The volume drop has gone from 14.3% in November '11 to 7.6% in November '13. We've seen a slowdown across most therapy areas, the most remarkable one being the anti-infective space which has gone from 8% all the way down to 0.2% [ph]. But it is also the area that is the most impacted by the new pricing policy. And appropriately a little bit more higher awareness on the uses of antibiotics and how this should probably be restricted. CV is down from 19% to 11%, GI is down 16% to 10%, (Technical Difficulty) respiratory are down from 15% and 16% respectively to 9%. Anti-diabetes, the diabetic group has maintained a good growth, but even that is down from 28% to 19%. And we really think a big part of this remains the new pricing policy which means it has achieved to an extent what the government wanted which is a new different pricing model into the market place.

This quarter for us and for the industry, I think has been challenging. They were certainly the trade margin challenges that were there post the new drug pricing policy announcement. And the Pfizer Group was also impacted in October and November with some of the trade related issues. Our business resumed sort of normalcy in December 2013 and we did catch back a good part of our lost sales for the past two months.

Let me also now update you on the status of the proposed merger between Wyeth Limited and Pfizer Limited, if I'm sure there will be questions associated with it. I want to thank all of you who have written about it, because we've received very positive coverage on the merger and the announcement.

In addition, I'm happy to say that the feedback from the investor interactions that we've had have also been very positive. Post the

Board approval on November 23rd from both the companies, we've done a lot of work to make sure that the work streams keep flowing. We've received approval as we said today from SEBI and stock exchanges last week and we have filed the necessary applications with the Bombay High Court. We will commence on our next steps posed receipt of directions from the Bombay High Court.

Also happy to let you know that the company has not received any complaints on the scheme from any stock holders. If you have also applied to the FIPB for approval and our current assessment, it means as we had indicated earlier that the process should be completed by September 2014. I'm going to now turn it over to Sridhar to talk a little bit about our performance for the quarter.

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

Hello, everyone. Thanks for dialing in. I will talk about the Pfizer results first as Aijaz said. You have seen that we reported a 8% increase in sales quarter-on-quarter. And as you all know, we continue to support Animal Health transition in manufacturing and selling for some period of time. And if you actually exclude that part of the sales in the quarter, our actual pharmaceutical growth is actually 9% for the quarter and the YTD will be about 5%.

Please note that the 9% is on the back of a bad two months October and November and a strong December month to catch back. Other factor we'll have to consider is, if you see our results over the last year or so it has got lot of element of Animal Health in terms of sales, we also have service in Animal Health, we have Wyeth expenses and service income associated with it. If I just knock the unexceptional item of Animal Health sale was also there. Just for comparison purposes or pharmaceutical purpose business if I look at it, pharmaceutical, like I said, 9% topline growth and a profit of 33% from the operations without Bank interest line, which is a very, very strong growth.

This is basically coming out of lower expense base. We told you over the last few quarters, we have restructured our teams there, that's bringing some efficiencies and that's what you're seeing in the profit growth. All our products except for Gelusil, Dolonex, Amlogard and branded generics, have grown in double digits in the quarter. Even on YTD basis, other than Becosules, Amlogard and branded generics all the products reflect a strong growth.

I think it's basically the new Tier model we introduced in April and the new selling model, which actually making us a difference to our key products. So, therefore very happy to report a very strong quarter for Pfizer. The other operating income is lower by 2 crores, this basically because of lower clinical trials, we said that we are reducing our support to Pfizer as Pfizer has put a new structure in place of four clinical trials, so therefore this will reduce as the year progresses also. The overall expenditure is at 91.9% versus 95% in the same period last year; on a YTD 90 and 92 of the period. I'll explain each line separately because there are various moment lines impacting each of them.

Let's talk about material cost. The material cost has increased by about 20 odd crores which is 39.4% of sales in the current year versus 33.8% the same period. We have made a provision for obsolete inventory and product mix because the sales in the quarter is high because of mismatches scheme period and that is the two reasons why you see a higher material consumptions in the current quarter.

The employee benefits, the staff cost in the current quarter is low by about 11 crores which is 17.8% of sales versus 24%. This is basically like I said lower number of field force what we have versus the same period last year. In addition given the improved interest rates, we have got a benefit on actual valuation (inaudible) retail benefits that has also given us a benefit in the current quarter by about 3 odd crores. So comparatively these two results in a lower employee cost.

Other expenses in the current quarter were 84 crores, which is 34% of sales versus 83.7 which is about 36% or so last year. There is a marginally expenses we have in this quarter of 5.6 crores, we have made some pricing-related accruals in this quarter. However, we do have offsets in terms of low advertisement costs on phasing, the clinical trial costs are lower because the income is also correspondingly lower and we have a lower contract field force. So there is offset happening in terms of other expenses.

In terms of other income, the other income though has increased by 2 crores, it is basically because we have sold some -- few residential apartments we have, we sold that off. One thing you need to keep factor in mind, there is the bank interest, though in the current quarter, they seem to be a 9% growth, but given we paid off the interim dividend in December, you will see a bank interest as a big complementary deduce going forward. So that's something we need to factor that in.

In summary, profit before tax and exceptional, I'm keeping exceptional out of it, it still reflects the 13% growth on published basis there. And if I knock off the Animal Health and all that exceptions, we will still show a very strong growth of 21 and 27, even if that consider interest income there.

So we had a pretty decent performance in both top and bottom line, our bottom line is even -- we're more excited as that's what we were going -- running towards it. And we hope to continue this good run into the next quarter also. That's how our assessment is. So this is a brief snapshot of our results of Pfizer Limited.

Aijaz and I are happy to take any questions.

Questions And Answers

Operator

Thank you very much sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanabhan, Analyst

Sir, can you give us I mean your sales, I mean the pharmaceutical sales is about 9%. How much is it in terms of volumes and how you have been impacted in terms of pricing? If you can actually throw some light on Amlogard where you have taken some pricing, how much do you see the impact on the profits going forward?

Aijaz Tobaccowalla, Managing Director, Executive Director

So, Pfizer has not been impacted so much by price control, that's sure, except for Amlogard for a change. So most of the 9% is predominantly volume related, the pricing is not much. Amlogard, yes, that one product has seen a more than a 50% price reduction. We had -- INR56 was the price earlier, it came down to 21.82. And actually as of two months back, they announced a new price, they have dropped it further to 21.38. So Amlogard, per se in the quarter, we are down about 2 crores, compared to the same period last year, purely account of pricing. Otherwise, most of the 9% is purely volume growth other than for Amlogard.

Sudarshan Padmanabhan, Analyst

Sir, can you also throw some light on the other brands like, Magnex, Minipress, how they have performed the top five brands typically?

Aijaz Tobaccowalla, Managing Director, Executive Director

So like I said, we had a challenge last year when we close you remember, some of our top products were struggling to grow because we probably got little distracted at our strategy and we started putting a new team in place and we started to recast our branded generic strategy that is giving us good results. Both Gelusil, Magnex, Dolonex, all are growing at around 7%, 8% which is better than what we had at around zero or 2% of what it was.

So, it's the first year after our new strategy and at 7%, 8%, we're pretty happy with that growth there for the top products there. Corex is unreasonably okay, Becosules, though it's reflecting a negative growth for us for the first nine months, we know the reason why. We went through some scheme periods, last year we had some big schemes that really pushed above sales in few quarters. And as on year-end of last year, we did sit with some inventory, we have to go through that corrections. We had changed the strategy this year and we said we're not going to have any big bang schemes, go through a standard or regular schemes. So, therefore this year is the correction year for Becosules and next year we should see a lot more steady state Becosules.

So in summary, I think all our top products are performing well, much, much better than last year. They already reached a 6% to 8% growth and we are hope to do much better going forward.

Sudarshan Padmanabhan, Analyst

Sir on the branded generic side, we are focusing on the products that are growing and more profitable, we are kind of moving out of products which are not so profitable, I mean if you can give us a sense as to how many products we have moved away and some kind of sense as to how the trajectory is expected to move forward?

Aijaz Tobaccowalla, Managing Director, Executive Director

We didn't move away because of profitability, let's accept that. We did not move because of profitability. I think we had launched one to many products in branded generics at a pretty faster phase. We expected the market to take it on. We realized that our field

force is getting diverted into every single product and therefore we were not getting focus on top products. Our strategy was not to distract the people from the top products, it was basically to broad base the portfolio which didn't work last year. So hence we have to recast it.

Second, we launched close to about 40 odd products last year. Of the 40 odd products, probably about 10 products or 12 products made sense to us, when they make sense means remaining from our Pfizer lens not from the way the competition see that success. We have our own internal benchmark and we said if we don't cross the threshold of x, y, z revenue in the first two years of launch, then I'm going to focus on those products. So that's the benchmark we did so far about 40 odd products. We continue to focus on half of them as of today, the rest half of them, (inaudible) so that's the broad mathematics for you.

Sudarshan Padmanabhan, Analyst

Thanks a lot. I'm joining back to queue.

Aijaz Tobaccowalla, Managing Director, Executive Director

Thanks Sudarshan.

Operator

Thank you. We have the next question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay, Analyst

Hi, good evening sir and thanks for the opportunity.

Aijaz Tobaccowalla, Managing Director, Executive Director

Hey, Nikhil.

Nikhil Upadhyay, Analyst

Sir, just continuing over the discussion in the last quarter con call, so you had said that, you had set up a separate team in order to increase the product availability in Tier 2 and Tier 3 market. So just wanted a sense about what percentage of our sales would currently be coming from those market and how do you see that can scale up with this new separate team which you have done?

And secondly, the 9% growth which we have had this quarter, how the changes which we have implemented over the last quarter's have started working on?

Aijaz Tobaccowalla, Managing Director, Executive Director

Okay. So couple of things, I will actually be little careful to answer this question in a different form. It's not that we are focusing on Tier 2 to Tier 3 market consciously. Pfizer is strong in metro, and probably very -- reasonably very strong in Tier 1. So between metro and Tier 1, we probably have virtually a 100% coverage. It stops coming down from Tier 2 to 3 onwards. When we start this strategy, we did in two ways. Some part of our portfolio is metro-centric, highly prescription oriented. Some part of portfolio is purely trade push kind of a portfolio where trade buys it or repurchase. So we have a great combination of both of it.

So given that optimum, we launched a Tier-based model, so therefore for Pain TA or Respiratory TA, which are really science based selling. We have teams focusing on those doctors which are important for us, but they will predominantly focus on metros and Tier 1s. There will be some coverage in Tier 2 and 3, but it will come down as we move along.

Whereas, when we come to my team which promotes big three products, which is Corex, Becosules, Gelusil, we actually -- we were being promoted by three different teams earlier. We brought all this together to one single team. We consolidated the field force, rather than split into three different teams, we've brought them together. So they gave us a big solid strength of 300 plus field force. This has a element of contract field force also. So therefore that gives us ability to actually have two field force for cost of one, and gives us little more depth and distribution into Tier 2 and Tier 3 markets.

So because the products are well reached there, so that's the model we put into place. So therefore, we are seeing where products are doing well in Tier 2 and 3, we have this extra field force covering the market for us. So that's the strategy we put in place.

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

The only thing guys that I would like to add to that, right would be, but don't take that to mean that our strategy is that we are suddenly going into a geographical expansion model, right. That is not the idea over here. We need to continue to evaluate this new team, which like we have said is actually giving us good results. If we believe that other coverage that we need in those lower Tier markets is not adequate, then certainly we would look for further expansion. But it's not like we're switching goalpost over here and starting to get into those markets directly.

Nikhil Upadhyay, Analyst

Okay. Secondly sir on Corex. Just wanted to know, so we had this all problem of codeine and all and as a result we've also launched Corex DX, the line extension. So, just wanted to know how is that product moving in terms of -- because the brand Corex already has a very strong presence. So how has the customer started moving to Corex DX and how do you see like, is it able to fulfill the sale which Corex, the codeine based was getting impacted?

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah, I think that's a really good question, right. I firmly believe that we have great equity and the brand name, right? And I think Corex serves a particular purpose and niche in the market place. What we wanted to do obviously, was to provide our customers with a value proposition of using a product with the same brand name, but which did not have codeine. Hence the introduction of Corex DX.

Corex DX is doing well, I'll get you the exact number on it, around 40 odd crores, sorry, close to 40 crores.

And its providing doctors with an alternative. And we think it as a model, as an approach leveraging some of our big brand names for line extensions or extensions of that core brand is certainly going to be an area of our focus going forward.

Nikhil Upadhyay, Analyst

Okay. Thirdly sir, it's more of on a combined entity basis, so if we look at Pfizer and Wyeth now is a combined entity. Our cash flow would still remain very strong with very limited CapEx requirements and all. I appreciate that we've already given a good dividend this time around, but going forward what would be the dividend policy that we will try to maintain? So is it like a -- because in one of the AGM, you did mentioned that 30% would be what you would be looking for, but going forward what's the idea on that?

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah, I think we have declared what it's going to be. I think what we've said though and I think we said at the last call or when we did the announcement is we're going to remain conservative on our dividend policy, I don't think that model is suddenly going to change just because we've got good cash flow. We certainly did make a call, given the amount of cash we had that we would make the most sense to return to our investors. And we will continue to evaluate sort of how we look at our cash position. But I don't think at the moment, we are looking at a significant change in our dividend policy.

Nikhil Upadhyay, Analyst

Okay. Last question, basically sir, on this Pfizer Products India Limited, I was just going through its ROC, balance sheet, it said -- it's in business of some -- some part of its revenue is coming from the trading business. So just can you give me some highlight like what would be the therapeutic areas where this business would be directed towards and --?

Aijaz Tobaccowalla, Managing Director, Executive Director

Okay. We wouldn't want to talk about that entity in this call out here, but just for your broad thing, they are predominantly on Oncology space, predominantly and some specialty areas.

Nikhil Upadhyay, Analyst

Okay. Thanks a lot sir.

Aijaz Tobaccowalla, Managing Director, Executive Director

Thanks.

Operator

Thank you. We have the next question from the line of Vishal Shah from Allard Partners. Please go ahead.

Vishal Shah, Analyst

Good evening, thanks for taking my question. My question is on your key products, Becosules, Corex and Gelusil. You briefly touched upon this, but each of these products has faced different issue over last few years. And in Corex, Gelusil as you mentioned, the growth is coming back and for Becosules maybe the growth will come back after this year of correction. But do you think in each of these product -- we've seen bottom end from here on a year's time also we can see a sustainable growth matching the industry growth?

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah. If I talk about Gelusil for a second. So, Gelusil has actually become the number one antacid in India. So we've actually taken that position which we're very, very proud of obviously. But the key over there is that, we don't think it's certainly is the one-time event. And what we are going to continue to look at is how do we keep positioning Gelusil for growth. And it won't just be on the products we have, but like I said, potentially with introductions of either new extensions or new flavors. So as a group of products in essence, certainly we expect to do well with it.

Within its direct space, Gelusil actually does significantly better than its core market, if you want to look at it in that space. So that has never been sort of the concerned. The concern has been as prescribing habits which from antacid to other forms of control. We just want to make sure that people have understand the value proposition that an antacid brings and the convenience that it brings to the patient.

Vishal Shah, Analyst

And on Becosules, like after this you're like -- can we see growth coming back, because in the last quarter you did indicate that we can see 9% to 12% kind of growth?

Aijaz Tobaccowalla, Managing Director, Executive Director

We're certainly seeing a different trajectory on Becosules than we have seen in the past. As Sridhar mentioned, I think this year a lot of it is just a quarter-to-quarter fluctuation, given that we were running a very different scheme model last year. But as we look at our core numbers on a month-to-month basis, yeah, we certainly believe we'll able to climb back up into the high single may be double digits.

Vishal Shah, Analyst

And on Corex, briefly like you've mentioned reasonable growth. What would be that growth trajectory and like you have been taken measures so?

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah. On Corex as I said, what we've basically done is, we've made sure that the product is available to our stockists and we are not doing anything in terms of a hard push on that product. The product continues to perform at market levels.

Vishal Shah, Analyst

Okay. And another question, because in your last call you did mentioned that there is still uncertainty whether the product is coming out of pricing policy, so any update on that?

Aijaz Tobaccowalla, Managing Director, Executive Director

Still continues for the time being thing there or so.

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

Yeah. You guys have been following it. I think there is lots of products that the conversation with the government continues.

Aijaz Tobaccowalla, Managing Director, Executive Director

We are in touch with the government and they are yet to take a decision on it. And we don't want to take anything which will disturb the current taught process of the governments, so just we're working towards with the government.

Vishal Shah, Analyst

Okay. And lastly, like you did provide continuing sales growth numbers like excluding the animal sales, but what would be that number on the EBIT level? Like sales growth is say 5% for the nine months and 9% for this quarter.

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah.

Vishal Shah, Analyst

But at the operating profit level what would be that number?

Aijaz Tobaccowalla, Managing Director, Executive Director

So like I said, if I only exclude Animal Health, and I exclude even the Wyeth service income which is also there. Our PBT would 21% for the quarter and 27% for a YTD basis.

Vishal Shah, Analyst

Okay. Thanks I have some questions on Wyeth which I'll get back.

Aijaz Tobaccowalla, Managing Director, Executive Director

Sure.

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

Thank you.

Operator

Thank you. We have the next question from the line of Rajesh Ranganathan from Doric Capital. Please go ahead.

Rajesh Ranganathan, Analyst

Hi. Thanks a lot for organizing this call and congratulations on the decent set of results. I wanted to just clarify some of the questions that have already been asked and answered to certain extent. One is with respect to Becosules, and I think in the last call we spoke as well that while you were taking a lot of effort to improve your position in Becosules, ultimately the challenge is that because if there is a single vitamin product, does have some issues in the changed marketplace. So from a point of view of launching new product which can capture the future growth have you thought about the role space in terms of what is your product launch strategy going ahead and can you share some light on that?

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah. So Rajesh, I think it's consistent with what we have said in the past, which is that we are certainly taking a look at our large brands and trying to see what would be the best way to extend them as a family of products, if you want to look at it that way. So we certainly see Becosules is having an opportunity in essence for line extensions. Also as Sridhar indicated earlier, we've got an entire opportunity on Becosules outside of the core, metro and Tier 1 space. And as we are exploring that role model, just given both the pricing on the product and the name recognition of the product, we think there is additional opportunity for it even there.

Rajesh Ranganathan, Analyst

And forgive my ignorance on this. Centrum brands are in India is under Pfizer or not under Pfizer?

Aijaz Tobaccowalla, Managing Director, Executive Director

Centrum has not been launched in India.

Rajesh Ranganathan, Analyst

Do you plan to?

Aijaz Tobaccowalla, Managing Director, Executive Director

We are constantly exploring options on what we would launch in here and we'd be looking at that also.

Rajesh Ranganathan, Analyst

Okay. Because it's a strong brand in metros anyway, even without you having not promoted it?

Aijaz Tobaccowalla, Managing Director, Executive Director

Very aware of it.

Rajesh Ranganathan, Analyst

And on the same way, if you look at the Pfizer portfolio of consumer products, not just over the counter. There are plenty of other options like, ChapStick, which is again a very strong brand name. Are those kind of products, it's just was an example, but as a family strategy is that something you are looking at?

Aijaz Tobaccowalla, Managing Director, Executive Director

I suggest [ph] we hold that call until -- I'll answer that question on the wide side of it, because I think that whole consumer space of ours is actually under the Wyeth umbrella, if you don't mind Rajesh.

Rajesh Ranganathan, Analyst

Okay, no problem. And related question is, with respect to the product pipelines of the future. If you look at Pfizer Global, finally they are getting some products coming through registration after a long time, which looks somewhat interesting. And have you

looked at that and said okay, which of those could be interesting in India, if yes, which are those and how are you preparing your own field force and selling strategies for that? Because that would be quite different from what you are doing right now.

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah. I mean, we continue to evaluate the pipeline of Pfizer. The goal obviously is, if a product makes sense for us to launch it in India, we would absolutely launch it in India. I think as you said, some of the pipeline is still in reasonable early stages, then there are some products that are under registration. So, yeah, absolutely, we continue to evaluate to see how we can maximize our business over year.

Rajesh Ranganathan, Analyst

Anything you're excited about that you can share?

Aijaz Tobaccowalla, Managing Director, Executive Director

No, nothing. Nothing at the moment that I could share.

Rajesh Ranganathan, Analyst

Or that you're not excited about?

Aijaz Tobaccowalla, Managing Director, Executive Director

No. Nothing at the moment that I could share.

Rajesh Ranganathan, Analyst

Okay. And finally before you get onto questions about Wyeth, with respect to the Pfizer branded generic strategy, I know you've cut back. And -- but the original logic of doing that partially also was to build up your strength around certain therapeutic areas. So is that still a strategy that you have?

Aijaz Tobaccowalla, Managing Director, Executive Director

Absolutely. Very much so, Rajesh, very much so. And I want to make sure that I emphasis the point, what we are talking about is an adjustment of the strategy, not a departure from our goals. And I think you bring up a very, very good point. Our goal had been that there are new products that we certainly need in our portfolio to get better coverage of the TA.

I think what happened is we landed up launching a few that were not necessarily focused in the right spots. And that became even more apparent to us as we made our change to this TA based selling model. We certainly found a lot of products that really didn't fit in the bag of our reps. I think that's where we've made the adjustment. We will continue to launch products and we will continue to try to launch them certainly in the TAs where either we've got a great starting position or we've got a history in terms of our global pipeline or certainly ones where we feel, with a few additions our portfolio would get more complete and that absolutely remains the strategy.

Rajesh Ranganathan, Analyst

Okay. Thank you. I'll get back into the queue for the Wyeth related questions.

Aijaz Tobaccowalla, Managing Director, Executive Director

Thank you, Rajesh.

Operator

Thank you. We'll take the last question on Pfizer from Ravi Purohit from Skill Ventures. Please go ahead.

Ravi Purohit, Analyst

Hi, thanks for taking my questions. Most of my questions have been answered, just one last question. Basically this is to do with one of the earlier callers or referring to one of the, you know, 100% owned software parent Pfizer Inc. in India. So in that sense, can we -- let's say, minority share holders in India get some sort of commitment or idea from Pfizer saying that TAs which are with the Pfizer plus Wyeth listed entity, any new product that comes in at Pfizer Inc will be launched with this company? So is there any such clarity that we have or we can communicate to shareholder as to, if there are other 100% owned subsidiaries of the company, it's not that certain products can get to air and certain -- I mean, arbitrary they can go here and there. So, if you could throw some light on what that thought process there and if you could communicate the same?

Aijaz Tobaccowalla, Managing Director, Executive Director

Generally, that has been our taught process till now. If you notice we have launched Champix, Viagra, all that in Pfizer Limited. It's not that everything is not launched. Our objective is to obviously maximize where the field force is sitting in and that's where our focus has been. That has been our general strategy till now. I don't think we have gone too much away from that, it's not that it is, like I have said earlier also in my previous call, the 100% sub is what came in from our previous acquisitions, it has the specialist oncology and few pharma products there. It remains there, nothing major has happened in that, and we try to be very fair to all our shareholders and investors.

Ravi Purohit, Analyst

Okay. Thanks.

Operator

Thank you. I now hand over the floor back to Mr. Aijaz Tobaccowalla for any final remarks on the Pfizer results call.

Aijaz Tobaccowalla, Managing Director, Executive Director

Thank you. Guys, let me just go through Pfizer side, right, by just sort of maybe steering the obvious, right. We do believe that business are getting back to normal, post resolution are some of the trade issues. The pricing policy uncertainty, unfortunately remains a little bit in place, but I think at least it starting to settle in. It's from a calendar standpoint, 2013 has certainly been a challenging year, I think for us and for the industry. But as 2013 comes to an end, we are looking for the good quarter in 2014 and hopefully for the remainder of the year.

Okay. With that, I am going to hand this back over to Sridhar to take us through the Wyeth results.

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

Okay. I will straight dive, straight into the financials as Aijaz has already spoken about the industry earlier. As we have indicated to you that this year is going to be a challenging year for Wyeth Limited, given challenges of the pricing policy. On top of that October, November, we have trade issues, so therefore, -- '13, '14 is a challenging year. So therefore, if you see our results that reflects that challenge very clearly there. However, some of our Anaheim [ph] products have registered a strong growth in that quarter. Products like folvite, except folvite overall Placid [ph] and Wymox have given a strong growth, volume growth.

Prevenar is doing well, it continues to do very well. So therefore, in terms of pharmaceutical sales, we have sale over 150 crores versus 160 crores at same period last year. The consumer sales was about 9 crores was 7.6 crores.

There was earlier question on product launches, yes, we did launch ChapStick this quarter in Wyeth. Though it's a very small scale, we launched it in a region in Punjab, that's where the maximum the temperature cold was there Wyeth on test market basis. We will see how the responses and we will come back. So that was the question on ChapStick, we did launch in Wyeth this quarter.

The other operating income is lower by about INR80 lakhs, this is basically due to a lower service in Pfizer, it goes through some true up and field force et cetera, so in this quarter low by about -- and that's what it reduced lower.

The total expenditure is about 89.3% in the current quarter versus 83.6% the same period last year. Given that we have a

significant impact on pricing policy, obviously, the ratios are going to look little bad on the face of it. In addition, we did make accrual for some more pricing matter in this quarter.

In terms of materials, the material cost has increased about INR14 crores, about 49% of sales in the current quarter versus -- were 38.2% the same period last year. The increase is basically can say close to about 11%, out of which a 5.6% is attributed to a lower realization on sales on top line because of the pricing policy itself. 2% is on account of increased cost of raw material for product of Wyeth alone. We import the API from outside of India, and that cost us shooting up and obviously Forex is also impacting us there. So that has taken away 2% or 3% is basically on account of product mix and the Forex impact versus the same period last year.

In terms of employee benefits, it's low by about 2 crores basically on an account of lower incentive accrual for the quarter. And also, the same period last year had some provisions for some VRS amount we paid last year. The other expenses in the current quarter is lower by about 10 crores, there is corresponding impact. We did make some accrual for some more pricing, little matter and this is actually offset by lower expenses like Forex, advertisement, and doubtful explosion which we had last year. So therefore it's more or less offset each other.

The other income is low by 50 lakhs, this is basically because the dividend we paid out. We paid a significantly higher portion of our cash in Wyeth as dividend and that has impacted our cash balance and the returns what we get from the bank on that.

So really look at the summary of profit before tax, though it has reduced by 30% quarter-on-quarter, basically two factors; pricing policy and the Forex losses still about August. August 1st, we rectified it by moving to a rupee billing, which has given us huge benefit in the current quarter. We don't see that impact in the current quarter. And we probably get one more quarter benefit before we close off in March. Therefore whatever impact we had in the first six months, should some extent to wipe off in the next six months (inaudible). So basically, like I said 2014 -- '13, '14 for Wyeth given these challenges, you would have expected this results is not a -- are we happy with these performance? In a way yes, because in something some other factors that beyond our control. Water was in our control, we have done well, Prevnar has done well, other products have done well. But the huge loss in folvite and OSIS itself have taken away significant amount of it. And the two months of sale loss on top of the October-November, just hit us back there. So, that's the summary of our performance in Wyeth.

I wouldn't talk much on financials, because I'm sure you guys would have a lot of question on Wyeth since we haven't spoken earlier. Aijaz and I will be happy to take only questions on Wyeth.

Operator

Thank you very much, sir. Participants we will now begin with the question-and-answer session on Wyeth results. We have the first question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay, Analyst

Hi. Good evening, sir.

Aijaz Tobaccowalla, Managing Director, Executive Director

Hi Nikhil.

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

Hi Nikhil.

Nikhil Upadhyay, Analyst

Sir, primly on the sales growth in gross margin. So if we look at Wyeth result on a sequential basis, so the gross margin has improved from 49% to 52%. And parallelly for the sales growth as we see -- like we had a overall impact of 80 crores due to Anaheim. So if I remove 20 crores from the last year December, 168 crores revenue, We've seen a growth of almost 6%, 7%. So just wanted to know how much of that has come from a pricing increase in some of the products and as you said that the volume growth was very strong, but considering the gross margin increase and the sales growth it seems the volume growth could have been much higher like close to almost 20%, 25%. So if you can just give some idea on that?

Aijaz Tobaccowalla, Managing Director, Executive Director

Okay. So just to answer that question, we continue to sell well in Pevnar, so Pevnar growth will be seen on topline. Okay, there is no doubt about it. Coming on to non-Pevnar, our biggest impact is Folvite. We were hoping for a good volume increase in Folvite. But as you know, Folvite is a plain folic acid combination. Within that plain folic acid combination we have close to about 80 plus market share. The market is moving towards combination, therefore we've launch Folvite MB. So, the head roof of growth in pure Folvite plain combinations in the short run is not coming as per our expectation. So therefore you are not seeing that volume growth coming in there. If you knockoff other than for folvite for the quarter, we didn't pass it in overall Wymox and Dymocks, I am seeing a good volume growth coming in there, in terms of the quarter there. It will take some time for the market to react, please understand it's a highly competitive market, our field force is going and trying to convince a doctors, who was used to writing a particular script to change it just because the price is lower. It takes time, it doesn't happen just in a quarter time.

Are we seeing attraction? Definitely yes, we are seeing attraction there. Are we confident we can pull something off? For the product, yes, definitely pull it off for sure.

Nikhil Upadhyay, Analyst

Sir, but just a continuation. So you said in folvite because even if you look at the numbers, we have almost 80% market share. And pricing is also like, we've been impacted heavily and now we would be more of in line. So direct conclusion which I can make is if the prices have gone down considerably and we already have a 80% market share, volume growth should have been much, much better?

Aijaz Tobaccowalla, Managing Director, Executive Director

No, no that's --

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

No, it's the other way around, if you think about it right. If you already have an 80% to 85% market share, unless you are going to expand the overall market, you're going to have to steal, so to speak sales from a competitor. There is only 15% left for us to sort of grow in that space, and I think that's where, that's sort of the short-run, right? The flip side of it certainly is, folvite given its brand recognition, what we are certainly trying to do is trying to expand that overall market. And if that happens hopefully, we will certainly see some of those volumes go up.

Nikhil Upadhyay, Analyst

Okay. And secondly like, we have also moved to rupee billing on Pevnar now. And so, how much of that would have supported us in terms of gross margin (Technical Difficulty)?

Aijaz Tobaccowalla, Managing Director, Executive Director

So, I don't want to get into specific on product by product there.

Nikhil Upadhyay, Analyst

No, not specific.

Aijaz Tobaccowalla, Managing Director, Executive Director

Roughly, we had about 3 crores to 4 crores of benefit in that quarter.

Nikhil Upadhyay, Analyst

Okay. Thanks a lot, sir.

Aijaz Tobaccowalla, Managing Director, Executive Director

Thanks.

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

Thank you.

Operator

Thank you. We have the next question from the line of Rajesh Ranganathan from Doric Capital. Please go ahead.

Rajesh Ranganathan, Analyst

Hi, I'm back again. You'd mentioned about the channel issues and we've been reading as well as in the presence well, but the -- can you give us an update on how it has been settled with respect to the margins and Anaheim products?

Aijaz Tobaccowalla, Managing Director, Executive Director

So, we have agreed on a temporary truss in there, we offered a interim of 5% discount on all our NELEM products to the trade, which we shared within the wholesalers and retailers. So that's the kind of arrangement we have put in for the time being.

Rajesh Ranganathan, Analyst

And 5% meaning -- additional discount over and above the 8% and 16% margins?

Aijaz Tobaccowalla, Managing Director, Executive Director

That's right.

Rajesh Ranganathan, Analyst

And when you say it temporary, what does that mean?

Aijaz Tobaccowalla, Managing Director, Executive Director

We don't know, I mean, we were trying to talk the government. A government changes the margin structure to say, 10 and 20 for Anaheim products, we'll obviously withdraw it and pass on that and give 10 or 20 to everyone, because my consumer price will go up.

Rajesh Ranganathan, Analyst

So the quarter that we have just had, does it reflect the better margins we -- the lower trade margins or you providing for a higher number right now?

Aijaz Tobaccowalla, Managing Director, Executive Director

No. So we started giving it from December onwards, so one month of December sees the impact.

Rajesh Ranganathan, Analyst

Okay. And when you look at, we talked about early consumer products you'd mentioned you'd launch, obviously, but overall, consumer products as a percentage of sales remains lower, the opportunity remains large one. Is there a thought process regarding whether it's an area you want to focus on, if yes, how do you create the resources to do that?

Aijaz Tobaccowalla, Managing Director, Executive Director

Okay. We are continuing to evaluate where we want to go with our consumer portfolio. Probably know consumer, like consumer in

India had two products for a long period of time, it's not something relatively new. And it's a pretty, it's a comparative space, attractive, but certainly a comparative space. It's something that we continue to look at and, as and when we have clarity or we are getting close to making a final decision, we'll certainly be in the presses.

Rajesh Ranganathan, Analyst

Okay. What does that mean, clarity? What are the options in front of you?

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah. Our option in essence, I mean, obviously, Pfizer globally has a large consumer portfolio, right. We have got to take a look just like we would on the Rx side of the business in terms of its fit in India and what is opportunity base would be in India, given that we will be starting in essence from scratch.

Rajesh Ranganathan, Analyst

Yeah. And that's what I mean saying that, even if you decide to, let say, that you want to do it, it requires a lot of effort with respect to sort of?

Aijaz Tobaccowalla, Managing Director, Executive Director

It certainly does, and that's part of the valuation, right. Because it's not like we can tact it on to something and continue on as we would, we have to make an investment and a commitment towards that space.

Rajesh Ranganathan, Analyst

Okay. And you haven't -- so, when do you think you can make the decision?

Aijaz Tobaccowalla, Managing Director, Executive Director

I don't think we've got a fixed timeline. I think we are continuing to evaluate it as probably as far as that would go right now.

Rajesh Ranganathan, Analyst

Okay. And you mentioned Prevnar is doing well and as you know Prevnar apart from issues also have had significant competition from Glaxo. Where do we stand with that situation, have we (inaudible) or it's still an issue which hasn't been settled?

Aijaz Tobaccowalla, Managing Director, Executive Director

I don't think it's an issue, I think the fact to the matter is that they are -- while they're competing they are certainly two different products and not the same product. What we are seeing is an expansion of the marketplace and we are certainly generating very strong growth within that expansion. And I think we'll continue to try and reflect the value we believe our product has in that space.

Rajesh Ranganathan, Analyst

So, are you saying that your market share is stabilized at this point of time?

Aijaz Tobaccowalla, Managing Director, Executive Director

Our market share, I believe has stabilized and also I think in general what -- I'm sure you guys are aware of it, but Prevnar 13 also has an indication for adults, which is an entire space that we are just starting to gain some traction on. So I think there is certainly an opportunity set for the product that we are continuing to build on.

Rajesh Ranganathan, Analyst

So overall, if you -- just last question, couple of questions on this. If you look at overall with the Wyeth products, they've been impacted by issues related to Anaheim and Plevinar and so forth and that created a low base this year. From this what sort of growth do you expect on the topline going ahead?

And second, you'd mentioned about the price increase on some of these controlled products like, Becosules and now that is still stuck over in the government machinery. But this just needs a little bit of clarification, with this new Anaheim, my understanding was that, every year you are suppose to get the inflation linked price, and does it mean that every time you have to go and sort of with the begging bowl to the government or is it automatic?

Aijaz Tobaccowalla, Managing Director, Executive Director

That's a good question, that's an interesting analogy. No, I think let me pass that into two, I think there were two questions in there. I think the products that we have with Wyeth are strong products with strong growth numbers. I think what you are seeing is not a volume drop, but what you are seeing is an adjustment because of the significant price cut you've got to take. But from a go forward standpoint, I think the growth numbers once you rebase line will be what they were historically, if not hopefully better given the new price points that we've got. So I think that's one side of it.

Your second part on Becosules, I know it's sort of a Pfizer question, but just to clarify that. Becosules were -- is the question really over there was whether it comes out of the price control or not, it's a very different issue. The third part in terms of increases on products which are under price control, to the best of our understanding, the government will basically give a percentage number around which you can increase the prices of your products on an annual basis. And that will apply equally to all products under price control. So it's not that you'd have to go on a per product and on a individual conversation basis, which obviously is a significant improvement and change from where we were in the old price control model. And as to our understanding, they will apply equally and on the same date, irrespective of when the prices have been announced.

Rajesh Ranganathan, Analyst

And which is that date? So when is the government -- so every year, when will the government say, okay, you can take a 5% increase if you want to?

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah. I think the plan in the moment is April 1, but we -- yeah, it is, I'm getting confirmation across is April 1.

Rajesh Ranganathan, Analyst

So that means on April 1, let's say Folvite for example, you can take a -- let's assume that number is 5%, that you can increase it 5%?

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

Sure, yeah.

Aijaz Tobaccowalla, Managing Director, Executive Director

Sure. In theory absolutely. But again, you have to remember that India historically, increases have been slow coming by, just because of how competitive that marketplace tends to be.

Rajesh Ranganathan, Analyst

Okay. And finally, you said you have a lower base this year and then next year you should see good growth on that, plus the price increases how much ever you are able to get? Will that all flow through to profit for Wyeth and we can -because the margins are also potentially below where they used to be?

Aijaz Tobaccowalla, Managing Director, Executive Director

Yeah. I mean certainly it will, for those products it will certainly flow through to the profit. On Pevnar, we continued to do to make investments to allow for the growth into the adult space and I think that one obviously will be an investment and a return balance.

Rajesh Ranganathan, Analyst

Okay. Thank you so much. Wish you best of luck for the next 12 months.

Aijaz Tobaccowalla, Managing Director, Executive Director

Thank you very much.

Rajesh Ranganathan, Analyst

Thank you.

Operator

Thank you. We'll take the last question from the line of Vishal Shah from Allard Partners. Please go ahead.

Vishal Shah, Analyst

Yeah. Hi. Firstly, if you could quantify like the Anaheim impact for Wyeth was around 80 crores on an annualized basis, gross impact x the volume benefit?

Aijaz Tobaccowalla, Managing Director, Executive Director

That was our estimate at the beginning of it. So on a full year basis, it will be about in that range.

Vishal Shah, Analyst

Yes. And if you could just provide some numbers product wise at least for Folvite and overall what is the impact seen there?

Aijaz Tobaccowalla, Managing Director, Executive Director

Folvite, the price drop is about 50 odd percent.

Vishal Shah, Analyst

Okay.

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

Overall about 28 odd percent.

Vishal Shah, Analyst

Over the 80 crores for Folvite, what would have been the impact?

Aijaz Tobaccowalla, Managing Director, Executive Director

Big chunk, big chunk. But most of them is overall Folvite, because both SKUs of Folvite came into the play.

Vishal Shah, Analyst

Okay. Coming onto margins now. On Pfizer, you have done cost restructuring and the benefits of which have been seen this. Now, given the pricing policy impact, can we do some cost adjustment on Wyeth side, so that the entire pricing policy impact doesn't flow through bottom line?

Aijaz Tobaccowalla, Managing Director, Executive Director

I think what we do -- the adjustments we've made on Pfizer were fundamentally as we restructured the firm to look at it from a TA standpoint. We think that there is a certain amount of investment force et cetera, that is necessary in Wyeth to continue especially in ours as this products get into an even more competitive space, right, when we are trying to drive volume growth. We are going to need that presence in the field. So I don't think we are taking a look at it on that short-term of basis and like we said, it's a question of its setting and hopefully creating a new baseline on which then we can get the growth. And then certainly you've got the -- hopefully the merger coming through.

Vishal Shah, Analyst

Okay. On Prevnar you said, it's been seeing good growth like, even last year it has been some 18%, 20% growth. Is that growth number still sustaining? And what like, can we see Prevnar 50, because you've been making certain investments there, contributing materially in say, next three years time or so?

Aijaz Tobaccowalla, Managing Director, Executive Director

In terms of growth, yes, we are still in the 20s. So, yes, that growth certainly continues. In terms of the mix generation of Prevnar, we'll have to go back into the R&D machinery to see when we are looking to release that one. The good thing, like you said, the own Prevnar 13 is, given that we have an indication for adults and we are looking for additional data to be read out in probably the first half of this year on a global basis. I think there is a real opportunity base for the product, even as it stands today.

Vishal Shah, Analyst

Okay. And on Forex you said that after six months there would be certain adjustments of -- without going into the details, there would be a review on INR, USD of billing every six months or every year or whatever products which were imported?

Aijaz Tobaccowalla, Managing Director, Executive Director

I have no visibility on that currently, Vishal, it's just going to be just, as of now, it's fixed, I don't know when they will review it as of now. I don't know.

S. Sridhar, Chief Financial Officer, Finance Director, Whole-time Director

We haven't agreed on any fixed time, right.

Vishal Shah, Analyst

Okay. And on margins, obviously, this year there has been a big impact of pricing policy as well as Forex. But say, once the phase, it comes in the phase and going forward as we see volume gains, can we say, like, earlier the margins used to be in the 30% range, like, overtime, can we see margins going back to say, 20% or say for the combined entity as a whole, can we see EBITDA margins towards mid-20s?

Aijaz Tobaccowalla, Managing Director, Executive Director

Let me say, I mean, early-20s, yes, mid-20s, a little longer term.

Vishal Shah, Analyst

But this would be for the combined entity, you're saying?

Aijaz Tobaccowalla, Managing Director, Executive Director

No, no. Combined entity, yes. Because the Pfizer profitability has improved over the last year or so. Combined entity, yes, if you look at our mid-20s, yes.

Vishal Shah, Analyst

Okay. Thanks a lot. All the best.

Aijaz Tobaccowalla, Managing Director, Executive Director

Thanks.

Operator

Thank you. I now hand over the floor back to Mr. Aijaz Tobaccowalla for closing comments. Thank you and over to you, sir.

Aijaz Tobaccowalla, Managing Director, Executive Director

Thank you everybody for joining us. And hopefully, we've sort of met your expectation on the Wyeth side of the call certainly. And we look forward to talking you at the end of the next quarter and the fiscal year. Have a good evening.

Operator

Thank you, sir. Ladies and gentlemen, on behalf of Pfizer that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.