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January 31, 2017  
Ref: ULL/SEC/2016-17

Corporate Relation Department  
**Bombay Stock Exchange Ltd.**  
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Mumbai – 400 001  
Scrip Code: 506690

National Stock Exchange of India Ltd  
Exchange Plaza, 5<sup>th</sup> Floor  
Plot No.C/1, G Block  
Bandra– Kurla Complex  
Bandra (East), Mumbai – 400 051  
Symbol – UNICHEMLAB

Dear Sir,

Please find attached Transcript on unaudited financial results for the quarter and nine months ended December 31, 2016.

Please take the above on record.

**For UNICHEM LABORATORIES LIMITED**

  
**Shalini Kamath**  
DGM – Secretarial & Insurance



## Unichem Laboratories Limited Q3 FY 2017 Results Conference Call January 23, 2017

**Moderator:** Ladies and gentlemen, good day and welcome to the Unichem Laboratories Limited Q3 FY2017 Results Conference Call, hosted by Systematix Shares and Stocks Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the 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 Mr. Dinesh Bajaj from Systematix Shares & Stocks. Thank you and over to you Sir!

**Dinesh Bajaj:** Hello all. Welcome to the Q3 conference call for Unichem. From the management we have Mr. B.S. Dhingra, Chief Executive Domestic Pharma, Mr. Rakesh Parikh, Chief Finance and Compliance Officer, Mr. Monish Shah, Manager, Investor Relations and Ms. Neema Thakore, Head Legal and Company Secretary. I would first request the management to take us through the quarterly numbers post, which we can proceed with the question and answer session.

**Rakesh Parikh:** Thank you Dinesh and good afternoon to you all. Pursuant to the board meeting held on Saturday the Investor Release was made available and I am sure most of you would had chance to go through it. I will quickly take you through the quarterly numbers and the certain highlights.

For the quarter ended December 31, 2016, the Company clocked a revenue of almost Rs. 360 Crores compared to Rs. 309 Crores in the corresponding quarter last year resulting in a growth of around 16%. This was primarily driven by the international formulation business which clocked more than Rs. 123 Crores as compared to Rs. 93 Crores resulting in about 31% of growth.

The EBITDA for this Q3 ending December stood at Rs. 44.4 Crores against Rs. 34 Crores against same quarter last year giving a growth in absolute numbers of about 30%. The profit after tax and total comprehensive income as per Ind-AS came in at Rs. 26 Crores against Rs. 20 Crores, year earlier.

The EPS thus stood at Rs. 2.87 against Rs. 2.27 in the corresponding quarter last year. For the nine months ended December, the total turnover works out to almost Rs. 1,070 Crores



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against Rs. 931 Crores which is again a similar growth of about 15% and international formulations clocked Rs. 333 Crores against Rs. 267 Crores showing a growth of over 25%. EBITDA for the nine months is about Rs. 128 Crores which is 15% higher than Rs. 111 Crores reported in the corresponding nine months last year.

The total comprehensive income after tax stood at Rs. 72 Crores with the EPS coming to Rs. 7.93. In terms of the other highlights the cumulative ANDA filings for the US business stands at 38 of which 21 are approved and the US DMFs stand at 47 as at the end of December 31, 2016.

The US subsidiary has continued its growth path with about 23% growth for the nine-months compared to the last time the and profit after tax of about \$0.8 million. The Niche subsidiary, the UK and European arm has clocked a sale of GBP 8 million for the nine months corresponding period it was about GBP 5.8 million. Brazil subsidiary growth is slightly higher at Real 1.9 million against Real 1.6 million and South African subsidiary has also recorded 9.5 million South African Rand against 2.8 Rand million last year.

With this, I would request Mr. Dhingra to share some highlights of the India Formulation Business.

**B.S. Dhingra:**

Thank you Mr. Parikh and Good Evening everyone.

I know that Q3FY17 was not good for overall industry, because of demonetization. If you see the results of Unichem for domestic business, domestic businesses clocked Rs. 203.64 Crores vis-à-vis Rs. 191.52 Crores thus showing a growth of 6%. But on YTD basis putting all three quarters together, Unichem has clocked a good growth against Rs. 580 last year we have done almost Rs. 652 and with a growth of around 12% plus.

When we look at overall secondary trends from AWACS data that we are showing positive traction as compared to market which is on MAT basis @ 10.4% and Unichem is showing a growth of around 14.3%, so almost 400-basis point more than the market in terms of secondary.

As you know that this year has been a very busy year for Unichem in terms of activities. This year we have taken one-step forward in terms of taking Unienzyme to OTC market, we have been working and learning towards how to make Unienzyme a great success in the domestic business and the results suggest that we are on a right traction and we are in a right direction to see that how Unienzyme can be scaled to the next level.

Overall, when we look at our chronic business which contributes around 62% to the overall revenue, is showing a better traction compared to the acute business on nine-month basis. When we look at our pillar brand growth, there is a very positive traction and when I look at



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the growth products, overall growth products have shown almost 18% to 19% in nine months. With this I conclude my remarks and we can now open lines for Q&A.

**Moderator:** Thank you very much. We will now begin the question and answer session. We have the first question from the line of Chirag Dagli from HDFC Mutual Fund. Please go ahead.

**Chirag Dagli:** Thank you for the opportunity. Have you allocated any specific amount for the Unienzyme, OTC venture? Is there specific called out kind of budget for spending?

**B.S. Dhingra:** In the beginning of the year, when we were doing a budgeting exercise and when you are taking a product from prescription to OTC, there is a different mindset for budgeting and we have definitely done that kind of budget.

**Chirag Dagli:** Can you share that number Sir?

**B.S. Dhingra:** Difficult to share those numbers .

**Chirag Dagli:** Has that number you know sort of come in a meaningful way in the first nine months of this year?

**B.S. Dhingra:** As I told earlier also that for first nine months, we were in a joint venture, we have tied up with BI who helped us to provide their field force and the market the product into retail and as well as into channels. So the foot on street was being provided by them and we also got their expertise in OTC marketing, so their marketing team was collaborating with our marketing team to see that how Unienzyme can successfully venture into an OTC. So you will agree that OTC mindset vis-à-vis the prescription mindset are two different aspects, therefore we have tied up with some expert who were into OTC business, so that we can run the tricks and scale the business.

**Chirag Dagli:** So that expenditure will it go up from these levels or will it go or will it plateau out from here on from what we have seen in the first nine months?

**B.S. Dhingra:** The first nine month expenditure was like more of testing expenditure, but if we want to scale the product to the next trajectory, we are relooking and reviewing our what kind of expenditure we need to do. We have case study done and we are having workshop with many third parties which are expert in OTC business. We are learning from them and finding that just if OTC product require initial ad cost, but that ad cost especially on TV are initially very high, but then only way a product can penetrate better into various markets and we can create a lot of footfalls for the product.

**Chirag Dagli:** Okay Sir and my second question is on the exports business that is why how many of these 21 products approved have you launched in the market?





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- Rakesh Parikh:** Currently 15 products have been launched.
- Chirag Dagli:** And other than not launched because...?
- Rakesh Parikh:** Basically a soft launch has been done during the end of the quarter.
- Chirag Dagli:** Can you share the average page of the 17 pending end years, for how many months has been pending?
- Rakesh Parikh:** It varies generally from may be a couple of months to about three years or so.
- Chirag Dagli:** And last question from me, what will be the tax rate have been guided to a tax rate this year and next?
- Rakesh Parikh:** If you see the tax provisions, which have been there in the numbers, a significant portion of that is deferred tax, because currently we are under MAT in view of the fiscal benefits which is roughly about 21%, and the balance would depend on how much capitalization takes place. I mean, certain part of it has got deferred therefore rate has remained practically same to marginally lower as far as third quarter is concerned though it is much higher compared to the last year's third quarter and if the capitalization what we have anticipated does not happen by March end then there is a chance that deferred tax may significantly go down or it may be negative also for the fourth quarter. But on an average roughly the tax rate 21% of MAT and around 2% or 3% deferred tax, so ~25% to 27% should be the rate for Unichem.
- Chirag Dagli:** Perfect, thank you so much and all the best.
- Moderator:** Thank you. We have the next question from the line of Ashish Thavkar from Motilal Oswal Securities. Please go ahead.
- Ashish Thavkar:** Thanks for the opportunity. We have seen some traction in legacy brands, so what would you attribute these two, was there some stocking up because of demonetization or you feel that there is some steady pickup in the legacy brands?
- B.S. Dhingra:** Come again, I could not get your question?
- Ashish Thavkar:** For older brands like the sartans and all those products, so there has been some traction in those products, so was there some kind of stocking up by the patients because of the demonetization or you believe that there is a gradual ramp up happening?
- B.S. Dhingra:** No, as you rightly mentioned that there was some stocking up by the patient because of demonetization, it is not true only for Unichem. It is true for all the chronic products in IPM. But when I look at internal numbers, the traction is consistent and growth is as per our



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plan. It is one of phenomenon that it is showing a very positive traction in secondary. But if I look at it on a MAT basis, it is not showing that kind of numbers.

**Ashish Thavkar:**

But the situation is normalized now you are saying?

**B.S. Dhingra:**

In November when Prime Minister announced the demonetization that time there was lot of up stocking of chronic products, because people have reached to retail stores and then they wanted to convert their old notes. But in December, it has come down drastically, because the November secondary was higher compared to the December secondary and the other thing what has happened is that our primary has not picked up to that issue. So that means there was a reduction in inventory across the therapy not only in pillar brand, but also in other brands.

**Ashish Thavkar:**

Got it. My next question is on the Unienzymes, OTC business if you could throw some light as how big is the market opportunity and when can we expect meaningful contribution from this segment?

**B.S. Dhingra:**

If I share with you why we took a decision to take Unienzyme to OTC, because we have found that prescriptions of Unienzymes was declining substantially and in last four, five years Unienzyme was not showing any kind of growth either in value and volume. So what we found that if we keep promoting Unienzyme to the doctor as usual may not create a meaningful value out of Unienzyme. Although Unienzyme is a 70 year old product for Unichem, it has a very good brand legacy and very good top of mind recall in some of the Tier 1 markets, which are high potential market for us may be UP, West Bengal, Bihar, but some of we were not able to leverage that top of mind recall or brand equity in those market.

Keeping this scenario in mind, we thought that why not to use this benefit of Unienzyme equity and therefore we have gone to OTC. For the first time in nine months, we find that Unienzyme is showing a plus 12% over last year, so that itself significant positive trend for Unienzyme. Though as I told you earlier in earlier question also that in nine months we have been marketing and learning through BI. Now we are finding our own solutions and trying to see that how we can scale Unienzyme to a different trajectory, because when market of GI is concerned, it is a big market. There are products like Digene, Gelusil and Hajmola, a lot of other brands, which are in the market. We find that GI is a very interesting consumer-oriented space as compared to doctor-oriented space wherein for all group of patients they want to walk down to retailer and want to ask for a product which is either been recommended through TV ad or through friends and colleagues. So keeping in this in mind we thought that Unienzyme will be attractive opportunity in GI, therefore we are aiming big and it is not only Unienzyme we are going also to introduce many other products in GI through OTC route.



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- Ashish Thavkar:** What about the other therapies, because we are typically pretty strong in CVS space, so are there any opportunities as well as line extensions are concerned or something of that sort?
- B.S. Dhingra:** For CVS we have introduced this DPP4, in the market via 2 of our divisions. They are paying very good dividends and this year the brands are likely to add a revenue of around Rs. 20 -22 Crores in our domestic business. Though our diabetic portfolio equity was not high, and with our various scientific initiatives that we have taken in last few years, all of which has paid dividends in scaling Gliptin in a very competitive market. And recently there is one more ARB which is coming the market with the name of Azilsartan, where we are also one of the companies to launch amongst other 20 companies who have launched Azilsartan. Our brand name is Zilsar.
- It is very early to comment on the product because the product has been in the market for only 7-10 days. But the initial response to the product from many top doctors, cardiologist, diabetologist and nephrologist is pretty good and very favourable for Unichem. So as of now we are betting on two Teneligliptin brands as well as on Zilsar, which is going to create a good growth trajectory for next year also.
- Ashish Thavkar:** Got it. Last question was on the US business considering the price erosion that is happening, to what extent have you witnessed the price erosion, if you could give some colour on this?
- Rakesh Parikh:** We are also affected in the certain products so to that extent obviously the value growth reflected is lower. But because of our relationship and the margin which we are having we are trying to improve our volume along with few new products which we are planning to launch. But beyond a point pricing scenario cannot be countered, we have to face it.
- Ashish Thavkar:** If you could give some ballpark numbers as to whether it was a low single digit?
- Rakesh Parikh:** It was in single digit but we have to wait and watch to see how it pans out in the immediate future.
- Ashish Thavkar:** What are your plans as far as end up filings are concerned?
- Rakesh Parikh:** We have filed one ANDA and we are looking to file one or two every quarter for the next few years.
- Ashish Thavkar:** Okay got it Sir. Thanks that was it from my side, all the best.
- Moderator:** Thank you. We have the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.



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- Dheeresh Pathak:** Thank you. I am referring to page 7 of the press release, where you have the key price listed, if you can just highlight which ones are under price control?
- B.S. Dhingra:** Among this product which are under price control?
- Dheeresh Pathak:** Yes, you have various groups listed right those are in Losar, Ampoxin, Uniezymes, Telsar page 7 of the release.
- B.S. Dhingra:** Telsar group is under price control and then Trika was under price control.
- Dheeresh Pathak:** Only those two, which is six and three, as a total under price control how much in the price control?
- B.S. Dhingra:** What you are asking the percentage of product which are under price control?
- Dheeresh Pathak:** Yes, as a Company as a whole, what percentage of domestic revenues are under price control?
- B.S. Dhingra:** Around 12% to 13%.
- Dheeresh Pathak:** These to make up 9%, the balance...
- B.S. Dhingra:** There are many other small, small products in the neuropsychiatry business, which have come last year under price control.
- Dheeresh Pathak:** Losar was earlier under price control, but now it is not or it was never under control?
- B.S. Dhingra:** It has come out of price.
- Rakesh Parikh:** Percentage is come down.
- B.S. Dhingra:** Therefore, the percentage has come down. Earlier if you remember our price control kitty was around 20% now it has come down between 12% - 15%.
- Dheeresh Pathak:** How does it work like for example Losar now that it is come out, how much price increase you can take, only 10% every year or you can take more?
- B.S. Dhingra:** No, 10% that is the ceiling.
- Dheeresh Pathak:** In the year it comes out you cannot do anything, from next year onwards you can take maximum 10% right?
- B.S. Dhingra:** Yes.



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- Dheeresh Pathak:** Okay and from the time where it was not under price control, how much deterioration in pricing did we have if you can have contacts like before it was not under price control if you are selling run rate, now you are selling at what and therefore what is that headroom that we have for?
- B.S. Dhingra:** If you remember that there was a reduction of ~28% in Losar three years ago and after that there was a price increase as per WPI. If I recollect correctly the WPI was around 4% in one year, and next year it was negative, so this year it has come out of price control, so net-net we are at 26% lower price compared to what originally it used to sell.
- Dheeresh Pathak:** Okay, so you will need probably three years of 10% price increase to get back to the level where you are earlier?
- B.S. Dhingra:** In revenue terms yes, but in bottomline no, because when product comes out of NLEM then trade margins also has to be correspondingly corrected, so the retail margins which is currently 16% as per the government notification that also moves to 10%, 20%, so net gain is 4% in bottom line while in topline it looks 10%.
- Dheeresh Pathak:** But do you have that brand equity to take maximum 10% hike or do you think it will be lower?
- B.S. Dhingra:** Maximum of 10%. This is for all portfolios not only for Losar.
- Dheeresh Pathak:** That is the regulation that you can take maximum 10%, I am saying based on the competition and whatever brand equity you perceive you have as of now for Losar, do you think you can take maximum 10% for next two, three years?
- B.S. Dhingra:** As you rightly said we have brand equity so on an average we will be able to take around between 9% and 10%. And for other sartans generally brands which are not doing well may be from Zydus or maybe from Sun they also try to increase the price in the range of 9% to 10%, so overall we match the market.
- Dheeresh Pathak:** Okay and on page 8, you have shown covered market growth in your growth, so for nine months Losar growth for the market is only 5% and grown 16% although we are 40% of the market, this cannot continue like this right for may be this is aberration for this year, but overall because we are the market with 40%?
- B.S. Dhingra:** You are right, when you look at a brand which is mature to decline cycle it cannot grow at this pace. In order to reduce the negative effect of the life cycle of the product we have put in a dedicated vertical which is promoting Losar and Trika. Since, it requires more energy to take products from specialist to generalist to family physician and to consulting physician. So the positive thing is that though in specialist space the product is showing a



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degrowth but when it comes to family physician, general physician as well as in consulting physician product has started picking up and showing a very positive growth, but having said that as you rightly mentioned maintaining that kind of growth momentum will definitely be tough.

**Dheeresh Pathak:** And lastly on this OTC switch for Unienzyme what is it that you will spend because these things one can get carried away and end of spending before realizing that any course correction is needed either in the media spend or anything like that would internally is there gap that you put on a full year basis that you can spend on?

**B.S. Dhingra:** If I look at the industry models, they are spending anywhere between 100% and 60% of the total revenue in OTC business which is spaced out for three to four years. We are very moderate in thinking and we are the thinking that we should not go as per the industry model and therefore we are evaluating various medias, not only TV advertisement but also other medias to become cost effective. At the same time reaching pan India and increasing our penetration and reach thus liberating Unienzyme from current trajectory to a newer. Our media spend is not going to be in the tune of what market is, we are very methodical in our thinking on those lines and you will find results with moderate spend how we can show a better growth.

**Dheeresh Pathak:** Okay, but if one were to think about it, it would be at 60% of the brand sales of Unienzyme for the first three years pretty much that much would be the cap?

**B.S. Dhingra:** That is what the workshop what we have done and many brands they have done like that to achieve a critical mass may it be I am talking from the mind of Revital H may be Volini, so those varieties they have done may be today...

**Dheeresh Pathak:** That also depends upon what is the current absolute sales of the brand, if we are on a lower base I am assuming Revital at a higher much base of bottom 60% of their sales would be a much larger absolute amount versus what it might be for us?

**B.S. Dhingra:** But today Revital may not be spending 60% after attaining a base of ~ Rs. 130 Crores, but I am talking Revital when it was Rs. 40 Crores then moved to Rs. 50 Crores, then to Rs. 60 Crores. Since our base is almost Rs. 50 Crores currently, we are not aiming that kind of spend for Unienzyme, but we are evaluating many other media strategies, not only TV, so that we become cost effective and penetrate better and create a better reach and customer portfolio.

**Dheeresh Pathak:** Thank you. All the best.

**Moderator:** Thank you. The next question is from the line of Bharat Celly from Equirus Securities. Please go ahead.



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- Bharat Celly:** Thanks for the opportunity. To start with the gross margins have strengthen quarter-on-quarter, so what would be the reason possibly for that?
- Rakesh Parikh:** I do not think there is a major improvement though the proportion of India formulation is lower in Q3 over Q2 and the operating income and the product mix in the international business has helped it to kind of balance set out.
- Bharat Celly:** Second one is to other expenses, they had actually decreased sharply quarter-on-quarter, so what has led to this. Have we decreased the ad spend on Unienzyme for that quarter or how it is?
- Rakesh Parikh:** Significant reason is because of that, majority of the ad spend which we did on TV had happened during the month of September. And then as Mr. Dhingra explained we were trying to balanced it out, so that is one of the major reason why the other expenses are lower in Q3 or Q2.
- Bharat Celly:** As it like we have paid lump sum during the earlier quarter and this quarter whatever not having that bill?
- Rakesh Parikh:** It is not a question of lump sum or anything, it depends, suppose the airing of the ad has been done up to September 30, we have to account it as per Ind-AS is in the second quarter, but if some of the ad schedule gets spilled over to October, they will be accounted in October.
- Bharat Celly:** Okay, understood. That is all from my side. Thanks.
- Moderator:** Thank you. The next question is from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.
- Bhagwan Chaudhary:** Thanks for the opportunity. First question on this Losar, since when will be eligibility to get the price hike?
- B.S. Dhingra:** It is somewhere in April, May.
- Bhagwan Chaudhary:** And secondly on the Unienzyme, you said that there was 12% growth in nine months though my understanding is we started this campaign from August 15<sup>th</sup> onwards, so does that include the entire growth in nine months was after that or in that perspective the Q3 growth should be the higher than that am I right?
- B.S. Dhingra:** Actually it is not only ad which gives you the growth, you have to manage channels, you have to manage retailer and educate retailers that how he will push from retail to a patient who is coming to him with a particular conditions. If you have seen that in Unienzyme Ad it



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talks about "Badhazmi Aur Gas Mitaa, Dil Khol Kar Khaao". First six months from April to September we have been working on retailers through BI where we were educating around 50000- 60000 retailers, that if patient comes with the symptoms, Badhazmi Aur Gas, how to treat that patient. So that was the first attempt. Once we found that these 50000- 60000 retailers have been trained through the field staff then we air our products, so when these retailers they see the TV ad also they feel confident, now Company has also aired its ad in the television, so he feels more confident to push the product, so that is the cycle of OTC. As you rightly mentioned, the Q3 has seen a good jump, but because of demonetization the primary has not happened to that tune.

**Bhagwan Chaudhary:** Okay, got it and secondly on the US part out of these remaining products, which we were supposed to start from certain products in Q3, so have you started the commencement of some of the products in Q3?

**Rakesh Parikh:** As I said that one product was there, which makes it total 15, the balance are being worked upon, so they will come in the current and in the next future quarters.

**Bhagwan Chaudhary:** Balance using all the seven, eight products, which are remaining?

**Rakesh Parikh:** It depends on how the pricing and the economics. it works out plus we have to see how we are able to balance out of our own supply chain.

**Bhagwan Chaudhary:** So how many out of these seven, eight can be long stay in the upcoming quarters?

**Rakesh Parikh:** May be about two or three can be launched in next few quarters.

**Bhagwan Chaudhary:** What about this capacity currently in the Goa and this API facility or we on track or it is still there is any capacity constraint?

**Rakesh Parikh:** The Goa facility has already been expanded and that is why you are seeing the numbers in terms of depreciation, which are already higher for second and third quarter. Specifically expanded capacity may have a little bit of small bottleneck or teething issues, which we are overcoming, it is improving and in the next few months we should able to reach the rated capacity and then we look at shifts and all that also.

**Bhagwan Chaudhary:** Okay, is there any cost yet to come from that capacity expansion part or it has been captured in the current quarter?

**Rakesh Parikh:** Basic expansion in terms of manufacturing side has been done, certain other things like warehousing part are pending and depends we may do in this year or we may do it in the next year or so.





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**Bhagwan Chaudhary:** Okay and what was the reason of this operating income was little higher in this quarter by 3-4 Crores?

**Rakesh Parikh:** Basically there were certain licenses for various countries and products in addition to the normal duty drawbacks that are in the form of exports incentives, so those licenses have got cleared and we have already been issued in the current quarter.

**Bhagwan Chaudhary:** Okay, this was kind of milestone, will it be there?

**Rakesh Parikh:** It is not a question of milestone. What happens is there could be some areas, which are not absolutely clear in terms of incentives, because normal thing like only DEPB or you have drawback those are fixed but for things like the focus market and certain other country related or product related incentives there are certain interpretations. Which we keep on representing because whatever extra comes that is a beneficial to us, so those are issued in the form of licenses. And many of those got cleared in this particular quarter.

**Bhagwan Chaudhary:** My question was will these benefits will be the recurring in nature or it was one off time?

**Rakesh Parikh:** It is not recurring because it involves a particular period beyond the three months for which we have been accounted number one and number two is in GST again there is not adequate clarity as to what they are going to do for these kind of incentives.

**Bhagwan Chaudhary:** Got it and you mentioned that somewhere I think in earlier remarks that fourth quarter deferred tax may be negative, am I right?

**Rakesh Parikh:** What happens is as per the accounting standards, you have to anticipate your capital expenditure for the full year and work out the deferred tax depending on when you are going to estimate it to capitalize those projects or the expenditure. Now if any of these do not materialize of which we have already provided it then there is a chance that it can be lower for the quarter.

**Bhagwan Chaudhary:** Got it. Thank you. Good luck.

**Moderator:** Thank you. We have the next question from the line of Nikhil Upadhyia from Securities Investment Management. Please go ahead.

**Nikhil Upadhyia:** Good evening Sir and congrats for the good set of numbers. Sir just one question on the OTC space, so over the last six months as we have done successfully with Unienzyme. Dhingra Sir mentioned that we are looking at adding some more line extensions in the GI space moving them to OTC, so over the next three years, how do you see the mix moving for us like could OTC be around 10% to 15% type of segment, so how we are working on that segment?



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**B.S. Dhingra:** Being ambitious is not bad and we have found that Unienzyme is helping us to become ambitious in OTC segment. So now we are from different lines trying to see what OTC is, having entered into like OTC pool, we have to play like a OTC player. I am confident having 10% to 15% overall revenue ambition is not bad and I think it is very right targeting what you are setting for us, so we are looking into various OTC space not only GI, but cough and cold, dermatology, cosmetology and even multivitamin space. It is very early, there are lot of developments happening and we are in touch with many third parties who have capability to develop some innovative products into various therapeutic segments, so in medium to long term we are confident that achieving the 10% to 15% of revenue in OTC will not be difficult.

**Nikhil Upadhya:** As we move towards that 10% to 15% probably range, do you think that some of the existing brands like Unienzyme we can launch more line extension, but some of us brands like Trika and all which ahead not been growing very strongly, so would we need to launch more brands or the current brand profile can help us move there?

**B.S. Dhingra:** Not much, because there are government restrictions of taking some products to OTC. Every Pharma product cannot go, as you rightly mentioned, I would have been very happy government would have allowed me to go for Trika, but Trika is known from butterfly, the day we put it on TV ad, if it would click it would multiply my revenues. But government does not permit that. So we are looking into as per the drug controller and as per the current laws of the land, what are the products which can be OTC, so it is definitely a product outside for current basket which has to be moved to OTC.

**Nikhil Upadhya:** Secondly Sir, you have mentioned that initially we went up with BI team and partnered with them in terms of feet on street and pushing the products and you also mentioned that nine months or this year number behind Unienzyme are not the base probably will have to increase the cost, so would we need to add more people in our own books in terms of pushing in the OTC segment or how the cost in terms of adding the people and all as we move towards OTC?

**B.S. Dhingra:** It is a very intelligent question. In fact, as you rightly mentioned the foot on the street in OTC market is very important or as equal important as compared to what you are spend in ad. So we have taken a conscious decision post December to set up our own team, not directly under Unichem, but through third party, so that we can maintain 50,000-60,000 retailers inventory, where retailers can be made aware about Unienzyme and then we can optimize that retail channel to push Unienzyme to all patients, who come with the elements like Badhazmi and gas. If I look at overall cost of these people, the setup which we are going to have and to pay to third party it will be hardly 10% to 15% higher than what we were paying to BI. So apart from that the major expenditure what as we have been talking about is on ad and we are evaluating what are those medias, which we need to use so that we increase our penetration and increase customer footfall.



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- Nikhil Upadhya:** Okay Sir. Thanks a lot and that is all.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** My question pertains to the domestic growth. What is the percentage growth on your domestic business that you expect in FY2018?
- B.S. Dhingra:** FY2018?
- Charulata Gaidhani:** Yes.
- B.S. Dhingra:** In Q3FY17 the growth is lower and the reason for that is well known to you and I am sure it is not only the Unichem it is with the total industry, because industry has lost substantially due to demonetization. AWACS data was circulated to all industry and probably must have reached to you where they have shown that November having reported a de growth of -13% and in December over November de growth of -6%. But as far as Unichem is concerned, we have kept a bold face in demonetization market. Our loss is not to that tune what AWACS has projected, but having said that in the months of November and December, we lost revenue of around 7.5% in terms of growth. Our growth could have been in double digits even better than YTD growth what we are currently reflecting.
- Charulata Gaidhani:** But is not it that because of demonetization, the cardiovascular segment and neuro segment people stocked up medicines as the chemists were accepting the Rs.500 and Rs.1000, so sales were...
- B.S. Dhingra:** That is what I said. In November there was a lot of stocking by the patients utilizing their old currency notes, but in December that impact has diluted. But in that ratio the stockiest have not placed the orders to the companies, almost all companies have given extra credit lines. They have given special schemes for increasing the stocks, of the Rs.203 Crores what we have done only Rs.30 Crores were given as extra credit for the period of seven days. So that means we have not put efforts to increase inventory down the line as other companies may have done, so in that way our business is more stable and that is what is the current even trend for us in January. We are showing a very positive trend in the month of January, because the depletion in inventory and our continuous momentum of secondary may reflective positive traction in Q4.
- Charulata Gaidhani:** Okay, so on that basis you expect the year-end FY2017 to grow at what rate?
- B.S. Dhingra:** At more than what we are reflecting on YTD December basis.
- Charulata Gaidhani:** Okay and for FY2018?



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- B.S. Dhingra:** FY2018, I expect it to grow better than the market. I do not know what kind of market condition will be, but if market grows at X, we believe that we can grow more than that. I do not know how the GST sword will impact not only pharma but overall economy, because yesterday when I was hearing Mr. Arun Jaitley, he was saying that it is going to come from July 1, 2017. We do not know how the April, May, June will behave, next financial year, but when it comes to inventory management and overall secondary traction, our brand building process will be continuous and I am very hopeful that next year also will grow better than the market.
- Charulata Gaidhani:** Okay, my second question pertains to Unienzyme. Unienzyme, you said you were going in for ad spends, what is the kind of expense that you are looking at?
- B.S. Dhingra:** What we have done as of now was only first burst in the month of September and second burst is likely to come by the end of January, which will continue till February. So we are not spending too heavily as I said in my previous question also, that but we are trying to find out many other medias to optimize our spend and to increase our penetration and reach.
- Charulata Gaidhani:** Okay, so what is the market size of this market for Unienzyme?
- B.S. Dhingra:** Actually in AWACS, the market is not very clearly defined, because there are not many products with enzyme and charcoal in the market place. If we add Digene, Gelusil, Pepfiz, Hajmola the market size becomes very huge. But Unienzyme of its kind is first in the market, we will see how we are able to use that first, which charcoal and enzyme to overcome the basic symptoms of Badhazmi and gas.
- Charulata Gaidhani:** Okay, fine. I will join back the queue.
- Moderator:** Thank you. Next we have a followup question from the line of Chirag Dugly from HDFC Mutual Fund. Please go ahead.
- Chirag Dagli:** Thank you for the followup. When Unienzyme goes OTC, will there be any impact on doctors prescribing that product?
- B.S. Dhingra:** Very purpose of taking to OTC was the doctors have reduced prescribing the product.
- Chirag Dagli:** But there is some sale as far as prescription is concerned?
- B.S. Dhingra:** To compensate that we are trying to liberate Unienzyme equity, we have Unienzyme Syrup which is still getting promoted by 450 odd people in the marketplace and then we are also developing another product on the equity of Unienzyme which will be also promoted to doctors.



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- Chirag Dagli:** That we have separate product for the doctors.
- B.S. Dhingra:** . Separate product.
- Chirag Dagli:** Okay and what is the specific impact that you are seeing on GST without getting into numbers just what is going to be the impact that you are seeing as an industry?
- B.S. Dhingra:** You should answer that more clearly than me since you are meeting many people and getting answer for that. To be honest there is a lot of ambiguity we do not know, lot of clarity has to come from government as of now.
- Chirag Dagli:** On the rates you are saying there are uncertainties?
- Rakesh Parikh:** Transition is what is the problem, like when VAT came there was lot of resistance and people were not buying and offtake reduces, this was seen across industries, it is not necessary Pharma industry. Uncertainty remains for example when you transfer something to CNF, you do not pay any tax when the goods are lying there except the excise, which has been paid as a part of manufacturing activity. Now tomorrow if you have to sell that in the GST regime straightaway 12-18% tax is applied. So obviously they will try to reduce the inventories which can reduce the offtake also.
- Chirag Dagli:** Fair point Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Romil Singla from Vart Capital. Please go ahead.
- Romil Singla:** My question is regarding the domestic export business margins. Can you share the nine months EBITDA margin separately for this?
- Rakesh Parikh:** We do not give business wise margins.
- Romil Singla:** Okay, so basically in the last three, four years the company has been in industry mode largely on the export business, because we are putting up the facilities, etc., capex and in the domestic side, we are investing within the manpower in terms of field force, etc., and the margins due to all this in addition to that the DPCO have gone down in last four years from 17.5% to 11.5%, 12%, so I just wanted to understand what are the normalized margins that we are looking as a whole?
- Rakesh Parikh:** Primarily what happens in the international business, the level of expenditure is very high in terms of the plants which we need to maintain to meet the regulatory compliances, the GDUFA fees which we pay, all these add up to the facility expenses. In addition to that R&D expenditure is also growing, along with the growth in turnover, we continue to spend



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4% to 5% on R&D as a percentage to the total turnover. These are the expenditures but for the future revenue and to that extent we are writing off in the books. So all these expenses lead to reduction in margins on the whole, compared to the branded generic domestic business which is having better margin in spite of the DPCO related issues.

**Romil Singla:** Are you seeing actually even the domestic margins are suppressed as in that over historic margins because the last three four years we are putting up lot of effort in terms of field force right?

**Rakesh Parikh:** Yes, there have been compensating effect because we have taken lot of initiatives also which has helped us and at the same time there were also effects from DPCO NLEM which have brought us down. Along with that few years ago we did the conversion of the distribution channels and that also has affected our margins.

**Romil Singla:** What is the normalized margin at least in the domestic business from a base of say 100 today we have to see the normalized margin say two years down the line?

**Rakesh Parikh:** There will be too many variables that will determine.

**Romil Singla:** Okay that is fine. The second is in terms of the overall manpower at the company level which has been growing at 20% CAGR for the last four years, where do you see that trend in the manpower cost because it includes both the one which is for the domestic side?

**Rakesh Parikh:** Again here also there is a combination of factors. We are talking two to three years back, that time we did the realignment of various divisions which is bearing fruit in the domestic business. Subsequent to that for the international business we had to augment our capacities and also manpower was added in the plants and also at the R&D facilities. Though no change in the India business manpower, the additional manpower has come in at Goa, API expansion which has taken place and little bit of increase in the support functions and then things like retiral benefits. As a result of which in addition to the normal revision is added to the increase in cost, and being a revenue cost. I think at topline we are working on the productivity to see that whether we can generate much higher output so as the percentage to sales whether this can be reduced from this level.

**Romil Singla:** Because it is not only for the last few years mean, if you see year-on-year your employee cost has been going higher than the top level almost every year, I basically was looking at the data from FY2015 over FY2014 and FY2016 over FY2016?

**Rakesh Parikh:** Since 2014 there was hiring in the domestic formulations business, hiring at R&D as it was shifted to Goa and other plant level hiring has increased.



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- Romil Singla:** So as a company, as a whole currently, you are clocking 11.5%, which is EBITDA margin, so what is your internal target or what is your wish that you would likely?
- Rakesh Parikh:** Ultimately, this leverage has to play out. When we improve the productivity whether it is our manpower or it is an expenditure or it is of the plants, which we have expanded and it takes time to improve productivity. Ultimately we are working towards the improvement of the margins. If you see in the third quarter the margins have definitely improved maybe 50 to 100 basis points and our endeavor is to see that what we continue that way and we get an improvement and we come back to the earlier margins or what is normally seen in many other companies also.
- Romil Singla:** That is the only thing I was trying to get, say two to three years down the line we can move from 12% to 15%?
- Rakesh Parikh:** Correct, this is what you are seeing. How fast we can go to that level of course determined by the market, the environment and ultimately our productivity improvement.
- Romil Singla:** Lastly on the niche generics I think had received some time back this finds from the ULIP for which we have gone for the appeal. Is there any update on that Sir?
- Neema Thakore:** Well, there has not been no movement in that case at all, so we are still awaiting hearing.
- Romil Singla:** So it takes yield dominated areas legal system is pretty slow in terms of hearing, etc.?
- Neema Thakore:** Three to five years.
- Romil Singla:** Thanks.
- Moderator:** Thank you. The next question is from Nimesh Mehta from Research Delta Advisors. Please go ahead.
- Nimesh Mehta:** If you just let us know what could be your consolidated sales and net profit that could be helpful and would strongly request you know to start reporting those quarterly numbers because that was more of being from?
- Rakesh Parikh:** The consolidated topline will be higher than the standalone and the bottom-line also would be higher in absolute terms..
- Nimesh Mehta:** So, what is the difference, what is that we are missing in standalone?
- Rakesh Parikh:** See what happens it that your subsidiary is buying entirely from our India Company. We have to follow the transfer pricing norms that are prevalent both across the world as well as in India as well as in the US. They have a markup because of the risks we are taking,



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functions we are providing, accordingly we should get a reasonable margin. So to that extent if I sell it at 100, he is selling at 100 plus and further our UK subsidiary is concerned you are aware that we have a plant in Ireland and roughly about one-third of their sourcing is done from Unichem and two-thirds are their own products which are happening. So Niche Generics also the two-thirds of the sales get added plus in one-third there is a markup which they do which they are selling from what is needed.

**Nimesh Mehta:** When you mention about niche being profitable, then you are talking about at a consolidated level, right, you are not just talking about what you report in standalone?

**Rakesh Parikh:** Sorry Niche means?

**Nimesh Mehta:** You know you mentioned in the press release that Niche has breakeven.

**Rakesh Parikh:** That is the legal entity has broken even.

**Nimesh Mehta:** But that that even or profit whatever it is, is basically of consolidated less not just what you report in the standalone?

**Rakesh Parikh:** That is the Niche standalone level and whatever we manufacturer here, that is one third of the product will have some manufacturing margin, which we are supposed to keep as a manufacturer.

**Nimesh Mehta:** The other thing I you know just wanted to know you know about your other expense how do we look at it because I understand the OTC costs will definitely go up and on the other side, I was at least under the impression that you would have had some reduction in freight cost. Now that the new facility has been up and also that we would have done write off as well in this quarter, so if you can just either on a line-by-line item explain or in total how do we look at the other expense?

**Rakesh Parikh:** See as you rightly pointed out there are at least few components. In addition to that there are other components. The freight reduction when you said, I do not think there is any question of reduction in freight because the international business is growing and that to US being the main driving force the freight obviously to the US is most furthest from India so the freight will obviously be much higher, so with the US growing at 20% to 30% the freight will keep on increasing.

**Nimesh Mehta:** No I was under the impression that we were earlier sending material through airways and now you are taking the shipment route?





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- Rakesh Parikh:** That extent there is a saving therefore the increase is on a lower rate, you know the rate of increase much lower because with the expanded capacity more and more we are sending by sea. Freight will not reduce per se because the volume of shipments is increasing.
- Nimesh Mehta:** Okay, fair point, it seems to me that it is an immaterial number in the overall scheme of things?
- Rakesh Parikh:** Yes, in pharma industry generally freight is not as high as some of the other industries.
- Nimesh Mehta:** Fair point. Roughly you know on the domestic, Dhingra said, you earlier also alluded to launches in Derma space, any guidance on that and also how many new products you would have launched this quarter and what is the target for the next year that will be helpful?
- B.S. Dhingra:** Specific to derma space?
- Nimesh Mehta:** Yes, I think last quarter you have mentioned that you may also look at adding...?
- B.S. Dhingra:** Yes, you are right. Last quarter we have launched two products one is Uniwhite, which is a fairness cream, other one is Stretch Rid which is to overcome the stretch marks and we are also launching one more product for hair care, which is called as Bioscalin in this quarter, so these three launches will be done by the end of this financial year. I am sure they are going to be help in terms of overall revenue for the company.
- Nimesh Mehta:** Okay total number of launches this quarter were how many and what you intend to be that in FY2018, in domestic space?
- B.S. Dhingra:** There are one or two product coming in every quarter.
- Nimesh Mehta:** Thank you very much.
- Moderator:** Thank you. The next question is from Ranvir. Please go ahead.
- Ranvir:** Sir R&D expenditure what has been in this quarter?
- Rakesh Parikh:** Roughly it is likely more than 4.5% of our sales.
- Ranvir:** This has been in the range of also right?
- Rakesh Parikh:** That is right.
- Ranvir:** Okay so US subsidiary the R&D cost we are factoring in a standalone only so whatever profit we are seeing there that would include ideally that part of R&D expenditure right?



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- Rakesh Parikh:** Correct.
- Ranvir:** So in this quarter the other expenditure is lower so which element has actually been lower in this quarter?
- Rakesh Parikh:** Are you comparing with the second quarter?
- Ranvir:** Sequentially.
- Rakesh Parikh:** Sequentially, it is primarily because of the marketing expenses for OTC. I mean that is the major reason. Other things are quite minor, certain manufacturing cost etc.
- Ranvir:** Okay, fine. Pending ANDA, which currently we have around 17 so all of them are integrated or how much are to be integrated?
- Rakesh Parikh:** May be barring one or two all are backward integrated.
- Ranvir:** The USFDA inspection, I believe, happened recently, but is there is any schedule for reinspection of any of our facilities?
- Rakesh Parikh:** Its been over a year now or more, whether anything will happen in 2017 or not, you cannot say because many of the facilities are visited by them in every alternate year is also what we understand.
- Ranvir:** Okay, so there has not been any communication or anything that you will make it sure that something is happening in 2017 or 2018?
- Rakesh Parikh:** But they can come for an audit by giving a very short notice.
- Ranvir:** Okay, so have you given any guidance for EBITDA margins for 2017 incase I am missed it?
- Rakesh Parikh:** We are trying to see whether we can improve. For the 3<sup>rd</sup> quarter we have shown some improvement and we headed in the right direction, we would like to end the higher with an improvement over last year, and take it forward into next year.
- Ranvir:** Sir excluding that the diminution of Brazilian investment in Brazilian actually the margin seems you know where stronger what is reported in the number, so that was roughly 14000 kind of EBITDA margins, so similar kind of margin or better you can expect next quarter?
- Rakesh Parikh:** Yes, for the next quarter the current thing will continue and there are too many variables which come into the other expenses like for example, if we go for another ad burst or so,



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think how much we decide to spend on it. The results may spill over to the next quarter or so of that.

**Ranvir:** So now plan is not to engage any marketing distributor because of the tie up was for nine months, so again we will not we will be tying up with such marketing company for OTC?

**B. S. Dhingra:** I think you are trying to know that are we engaging from other companies with Unichem Wellness Vision. That is what you want to know?

**Ranvir:** Yes.

**B. S. Dhingra:** No, we are on a learning curve. We wanted to learn OTX market so therefore engaged ourselves with BI. Having learnt in nine months we are going on our own.

**Ranvir:** Okay. So in case we decide to scale our own the expenditure would be different right, as in engaging other third party for this marketing?

**B. S. Dhingra:** Let me explain, for example, they have taken X money for the service provided, and when we do it our own it will be hardly 5% to 10%, 10% to 15% higher than the X amount. So there is not going to be very high cost of scaling it of our own.

**Ranvir:** Okay, all the best.

**Moderator:** Thank you. The next question is from Shri Hari from PCS Securities. Please go ahead.

**Shri Hari:** Thank for the opportunity. Sir 17 pending files in the US what could be the assessable market size and could you give us some colour as regards how many are limited competition products or sizable opportunity?

**Rakesh Parikh:** The filings which are made are of the products which were identified earlier. These are more like a normal generic though they are good products, there are already 20 or 30 approvals given. At manufacturing level the market size is roughly around USD 20 to 30 million per product.

**Shri Hari:** It can be around half a billion for 17?

**Rakesh Parikh:** Yes, at the manufacturing level.

**Shri Hari:** So that means none of them would be really limited competition products or anything other than that?

**Rakesh Parikh:** We are currently working on those filings.



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- Shri Hari:** So when can we see rollout of any such product?
- Rakesh Parikh:** The filings of these will start happening from the next financial year or so. Of the earlier lot of around 40-50 products, 38 are filed and another about 5 to 10 products are in the filing pipeline. The work on the other projects have already started where we have identified about 10 or 15 of these newer set of products. So the filing will start may be in the next financial year or so and depends on how the approvals and other process goes through.
- Shri Hari:** So best case scenario is from fiscal 2019 onwards we could see some traction?
- Rakesh Parikh:** Or it can be even later than that, depending on patent issues.
- Shri Hari:** And I see some kind of divergence on your DMF filings and ANDA filing, when ANDA are not actually catching up the DMF filing so any particular reason for that?
- Rakesh Parikh:** What happens is that if DMF is ready and for DMF there is no question of approval or something. It is also the first stage of filing if the product is backward integrated. The ANDAs will then slowly follow suite or may be for some reason in one or two products we may decide not to go ahead for the ANDA also.
- Shri Hari:** Right. Thank you. That is all from my side.
- Moderator:** Thank you. The next question is from Nimesh Mehta from the Research Delta Advisors. Please go ahead.
- Nimesh Mehta:** Just a follow up on the liability, the litigation price related liability in the European market regarding niche, so if you can just update what is the latest status and when do you think there can be outcome or whatever some sort of an outcome?
- Rakesh Parikh:** I think Neema Thakore mentioned earlier there has been no hearing \, and to that extent there has been no movement, so we are waiting for to hear from the judiciary. It is status quo right now.
- Nimesh Mehta:** The total just to remind myself, the total liability or total claim that the government has made is about 14 million Euro right?
- Rakesh Parikh:** Around Euro 14 million on Unichem and Niche.
- Nimesh Mehta:** Unichem and Niche, I understood. Thank you very much.
- Moderator:** Thank you very much. That was the last question ladies and gentlemen. I would now like to hand the conference back to Mr. Dinesh Bajaj from Systematix Shares for closing comments.



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**Dinesh Bajaj:** On behalf of Systematix, I would like to thank the management of Unichem for the valuable time. A big thank you to all the participants. Thank you everyone.

**Moderator:** Thank you very much. On behalf of Systematix Shares and Stock that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.