



“Ranbaxy Laboratories Limited Q2 FY15 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Ranbaxy Laboratories Limited Q2 FY-'15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Virender Sharma – Head of Investor Relations at Ranbaxy. Thank you. And over to you, sir.

Virender Sharma: Hello, everyone and Welcome to the Ranbaxy Post Results Conference Call for Q2 Financial Year '15, i.e. July to September 2014 and YTD September 30, 2014. Earlier in the day, the company issued a 'Press Release' detailing the financial results for the quarter and the YTD September 30, 2014. The Press Release and the Presentation and the management will discuss with you, now will be uploaded on the company website for your reference. Today, on the call we have with us Mr. Arun Sawhney – CEO and Managing Director of Ranbaxy who will be the first speaker; he will discuss the highlights of the company performance, Mr. Indrajit Banerjee – CFO and President at Ranbaxy will be the next speaker; he will detail the financial performance of the company and Mr. Ranjan Chakravarti will also be here. Post the 'Presentation', we will be happy to take your questions. We have budgeted an hour for the call today. Over to you Mr. Sawhney.

Arun Sawhney: Thank you, Virender. Good Day, everyone and thank you for joining us on the Investor Call to discuss Second Quarter FY-'15 Financial Results of Ranbaxy.

Before I start, a brief comment on merger between Ranbaxy and Sun Pharma. The High Court of Punjab and Haryana convened a meeting of equity shareholders on 19th of September 2014. In the meeting, the shareholders approved the Scheme of Arrangement providing merger of Ranbaxy Laboratories Limited with Sun Pharmaceutical Industries Limited with overwhelming majority of more than 99.7%. Ranbaxy is in the process of obtaining other necessary approvals for completing the merger.

And now I go on to the results for the quarter: Sales during the quarter were Rs.32 Bn aided by sales from Valsartan in the US. Ranbaxy continued to focus on Branded business in the emerging markets as well as strengthen its presence in the USA. The EBITDA margin in the quarter was around 25%. Focus on performance of key products and measures to control cost continued during the quarter.

With regard to other significant developments during the quarter, 68 ANDA filings were made across the globe and approvals were received for 38. Synriam, our first NCE from Ranbaxy, received approvals from a few African countries. We will start shipping Synriam to some of the African countries during the current quarter. In India, Synriam is approved for uncomplicated Plasmodium Falciparum malaria which accounts for 90% of the deaths caused due to malaria and Plasmodium Vivax malaria which contributes to half of the malaria cases world wide. Since its launch Synriam has treated more than 1 Mn patients in India. Patients outside India

will also now benefit from this drug. The derivative position – the total leveraged position as at the end of quarter was \$373 Mn, down from \$470 Mn from the preceding quarter. On an average, \$32 Mn worth of derivatives mature every month. The run rate is expected to contract in the coming quarters. And finally, the net debt for the quarter was \$739 Mn as compared to \$846 Mn in the July '14 to September '14 quarter.

I now go on to the performance of business in different regions. For the company, the total sales grew by around 21% over the corresponding quarter last year, aided by sale of Valsartan in the US and a strong base business in India and West Europe. API sales remain weak on account of low exports of API from Toansa and Dewas, but these are now steadily picking up.

Moving on to 'Regional Sales' details, North America sales were Rs.14 Bn, a growth of 66% over the corresponding quarter last year. USA business sales for the quarter were Rs.13.5 Bn, up from Rs.7.8 Bn over the corresponding quarter, aided by Valsartan. Our current market share in Valsartan is around 32%. USA base business was negatively impacted due to loss on account of API shipment from Toansa. Absorica continued to perform well. Market share of Absorica was around 20% as per IMF in September 2014.

I now come to India. Sale in India was Rs.6.4 Bn during the quarter, growth of 12% over the corresponding quarter last year. India region witnessed faster than market growth in its prime segment within the Branded business particularly CVD, Anti-Infectives, and Dermatology. OTC business recorded a sale of Rs.978 Mn. Eight out of the ten molecules in India region have reflected an improvement in market share during the period. For YTD September '14, India sales grew by around 12% to Rs.12.5 Bn.

Ranbaxy is currently Ranked 4th in the Indian Pharmaceutical Market with 11 of our leading brands accounting within the 300 top brands in India.

Ranbaxy continues to maintain leadership position in its represented markets of Romania and Russia. During the quarter, sales in the region were Rs.4 Bn, reflecting a decline of (-7%). Of this Romania sales for the quarter were Rs.1.7 Bn. Sales in Russia were Rs.1.5 Bn and were affected by lower ARV sales as compared to the corresponding quarter last year. These we expect will be made up in the second half of the current year.

I now go on to West Europe. Sales in West Europe were Rs.2.3 Bn for the quarter, growing at the rate of 17% and were driven by strong sales from all key businesses including UK, Germany, North Europe, and Spain. Through monetization of market opportunities and strong tender wins the company continues to be focused on improving profitability in the region. Top 10 molecules which contributed more than 50% of the sales in the region, exhibited robust growth. In Germany, Ranbaxy is Ranked Number One in 6 Molecules and is in Top 5 in Another 3.

Moving on to Asia Pacific and LATAM, the region registered sales of Rs.1.8 Bn for the quarter showing a decline of (-15%). Sales in APAC including Sri Lanka were Rs.1.3 Bn and LATAM

Rs.600 Mn. Our quarterly sales are not like-to-like as the current quarter was impacted by change in business model in Thailand, where Ranbaxy is now working with Daiichi Sankyo front end marketing and sales. Sales in the region were impacted due to lack of supply of APIs from Toansa to Malaysia and Brazil, our key markets in the region. The quarter saw strong sales growth in Australia due to launch of Esomeprazole in July 2014. In the region, the other markets that performed well were Ecuador, Brazil, Thailand, New Zealand, Cambodia, and Philippines. We faced some challenges in Malaysia and Myanmar other than Sri Lanka.

I now move on to Africa and Middle East. Sales for Africa and Middle East region for the quarter were almost flat at Rs.2.4 Bn impacted by reduced tender quantities of ARVs. The core branded business pharmaceuticals continues to grow at a very healthy rate in the region. Ranbaxy continues to invest in manufacturing facilities in the region.

And now finally a comment on API, sales for APIs and others were Rs.935 Mn for the quarter. Sales of APIs were impacted due to supply challenges coming from Dewas and Toansa. With this I now hand over to Indrajit to take us through the financials. Over to you Indrajit.

Indrajit Banerjee:

Thank you, Arun. Good Day to everyone on the call. I will take you through the salient highlights of the results. Sales for the quarter ended September 2014, as mentioned earlier, was Rs.32.2 Bn compared to Rs.27.5 Bn in the corresponding quarter ended September 2013. The sales growth has largely been fueled in the US with the launch of Valsartan and the strong growth in the Western Europe and India markets. Sales for cumulative year to September '14 was Rs.55.9 Bn as compared to Rs.53.3 Bn in the corresponding period in the previous year. Other operating income was Rs.425 Mn in the quarter versus Rs.505 Mn in the corresponding quarter of the previous year while on an YTD basis it was Rs.863 Mn. Material consumption was at Rs.10.1 Bn, representing about 31% of total sales in the quarter ended September '14 and it was Rs.18.8 Bn representing 33.6% of sales for the year-to-date September 2014. Employee costs were Rs.5,485 Mn in the quarter against Rs.5,316 Mn in the corresponding quarter of the previous year. For the YTD number the employee costs were at Rs.10.77 Bn against Rs.10.447 Bn in the YTD September 2013. Depreciation, amortization and impairment for the quarter were lower at Rs.1,019 Mn Vs Rs.1,334 Mn in the corresponding quarter of the previous year. Now, this is mainly on account of the exceptional impairment that was there in the previous year which was mentioned then. The other operating expenses including claims paid amounted to Rs.8.3 Bn in the quarter while on an YTD basis it was Rs.16.2 Bn. This has decreased as a percentage of sales over the corresponding quarter due to the control on expenses and of course the higher sales arising from Valsartan and other products during the quarter. The second quarter EBITDA was 25% of sales as compared to 7% in the corresponding quarter of the previous year. It was 19% on a cumulative basis till September. EBITDA was recorded at Rs.8.071 Bn for the quarter and Rs.10.45 Bn for the YTD September '14. Other income which includes interest income was also lower at Rs.174 Mn in the quarter versus Rs.261 Mn in the corresponding quarter of the previous year, mainly on account of interest income on a lower level of deposits that was carried during the current quarter. For the same reason, interest and other income for YTD September '14 was down to Rs.428 Mn from Rs.615 Mn in the corresponding period of the previous year. Finance cost for

the quarter was higher at Rs.1,373 Mn versus Rs.1,115 Mn in the corresponding quarter of the previous year due to higher borrowing. Finance cost for the YTD September 2014 was higher at Rs.2,796 Mn versus Rs.2,706 Mn in the corresponding period of the previous year. FOREX loss, as you know, is apportioned to financing cost in accordance with the accounting standard. The closing dollar-rupee exchange rate was 61.58 as on 30th September '14 versus 62.66 on 30th September of the previous year. It was 60.08 as on 30th June '14. The average dollar-rupee exchange rate during the quarter was 60.59 versus 62.17 in the corresponding quarter of the previous year and it was 59.80 in the preceding quarter, i.e. quarter ended 30th June. So the exchange rate was higher 60.59 versus 59.80 in the preceding quarter. Net Foreign exchange loss on auction and derivatives other than loans is Rs.220 Mn in the current quarter; however, there is a gain of Rs.97 Mn cumulative till September '14. Both are shown below the EBITDA line under exceptional items. The company recorded net profit before tax of Rs.5633 Mn. The tax for the current quarter and for the YTD September '14 amounted to Rs.851 Mn and Rs.796 Mn respectively and this is the reason mainly on account of tax being payable under the profitable entity in US and Terapia. So that is the summary. With that I hand it back to Virender.

- Virender Sharma:** Now, we will open the floor for the questions, please.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from Sonal Gupta of UBS. Please go ahead.
- Sonal Gupta:** The first question that I had was regarding Nexium, there is a lot of speculation on that thing. So just wanted to understand, you have previously reiterated that you will sort of maintain the exclusivity. Whether you want to share it or not, but do you have a cut-off date as such that under the consent decree where if we do not achieve the approval by a certain date, then we sort of risk losing the exclusivity, if you could just shed some light on what the situation is?
- Arun Sawhney:** At the moment I can only share with you that we believe we have the exclusivity and we will launch the product upon approval.
- Sonal Gupta:** That would hold for Valcyte as well?
- Arun Sawhney:** Yes.
- Sonal Gupta:** Just in terms of the consent decree process, could you throw some light as to where you are in terms of the remediation, when could probably maybe Mohali would be the first one to come out but when would you sort of be ready for re-inspection or something of that sort?
- Arun Sawhney:** We are not discussing timelines externally. We are working on remediation of several plants and in our estimate the first plant to be remedied would be Mohali. That is all that I can share with you at the moment.
- Sonal Gupta:** Just if I could get the net debt number, I do not know if it was announced or not?

- Arun Sawhney:** \$739 Mn.
- Moderator:** Thank you. The next question is from Girish Bakhru of HSBC. Please go ahead.
- Girish Bakhru:** First question was on the Ohm's Lab, I mean, recently we saw that there were some exits. Can you comment on what were the reasons for the exit and now who is basically in charge of the Ohm?
- Arun Sawhney:** The exits do take place in companies and we have sufficiently good breadth and depth in management of Ranbaxy to take care of the situation. There are enough number of people who will take care of the Ohm operations in the coming period.
- Girish Bakhru:** Any recent visit from the FDA or any regulator to Ohm's facility?
- Arun Sawhney:** All these inspections of Ohm's facilities have gone well and in the recent past there has not been any inspection.
- Girish Bakhru:** Second question was on the ANDA pipeline. Can you give color on how many ANDAs specifically were filed for the US market?
- Arun Sawhney:** We do not declare ANDA filings market wise. That is all that I can share with you today.
- Girish Bakhru:** Just lastly on the other expenses. I needed some more clarity on this cost control exercise. If you can break down the other expenses in terms of where the costs have really come down and how sustainable do you see that going forward?
- Indrajit Banerjee:** I mentioned in the various categories the expenses as a percentage of sales has gone down and this is a result of cost control in various areas that includes the manufacturing locations and includes sales and promotion expenses that includes general overheads, head office expenses, it is right across. So it is difficult to identify which particular item or which costs have been reduced, I mean, we do not disclose that beyond what we have disclosed in the results, but there has been a consistent control on cost across the company. And in terms of sustainability we do not see any reason why there should be any major change in the expenses or normal activities as has been recorded in the current quarter, it is a pretty normal quarter in terms of the expenses for the current level of operations.
- Girish Bakhru:** You would say that there is further room for this to come down?
- Indrajit Banerjee:** The management is always on the lookout for ways of optimizing expenses and controlling expenses, yes.
- Moderator:** Thank you. The next question is from Anubhav Aggarwal of Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** My first question is a just clarification. Can you give out R&D spend and the remediation cost for the quarter?

- Indrajit Banerjee:** We do not normally disclose remediation cost and R&D cost also. We just give an indication I suppose, but what is the normal it is in running at the same level as in the previous year, I think it is sufficient to say that.
- Anubhav Aggarwal:** How about sequentially, Indrajit, because you did mention last quarter the remediation cost was 2.5% of sales, on an absolute amount, both the number, R&D spend and remediation will be similar to what you were spending last quarter?
- Indrajit Banerjee:** Q2 versus Q1 you mean? Okay, I think let me put it this way this quarter, our R&D spend has been a little more than what was there in the previous quarter. Remediation expenses we do not normally disclose amount all that. In this quarter also it has been a little more than what it was there in the previous quarter, let me limit my comment to that.
- Anubhav Aggarwal:** Second question is, if you exclude Valsartan, just a qualitative comment, your Q2 over Q1, your base business margin would have expanded, remained similar?
- Indrajit Banerjee:** It has been more or less maintained, let us put it that way.
- Anubhav Aggarwal:** One clarity, Dewas and Toansa, are they back fully now or was it only partial impact of benefit of this quarter, what is the situation there?
- Arun Sawhney:** Both Dewas and Toansa API operations have commenced, they are not yet in full pep, but I believe by the end of this quarter we should see all the modules in Dewas up and running and substantial part of Toansa up and running.
- Anubhav Aggarwal:** For ex-US market by end of the quarter we should see normal operations for these two units?
- Arun Sawhney:** Yes.
- Moderator:** Thank you. The next question is from Hitesh Mahida of Antique Stock Broking. Please go ahead.
- Hitesh Mahida:** Sir, actually, wanted to know, the sequential increase which we have seen in the US business, is it only because of Diovan or have we seen some price increases in Absorica and some of the other products?
- Arun Sawhney:** We have a very strong base business growth also. So while Diovan has definitely helped the performance in the US during the quarter but even the base business is very sound. Absorica as I have already indicated as at end of September was holding around to 20% market share.
- Hitesh Mahida:** Any update on this ANDA filing by Actavis, can we expect a generic launch for Absorica in 2015?
- Arun Sawhney:** That is a matter which is I would say at this point in time sub judice, it is not wise to comment on that.

- Hitesh Mahida:** What is your view on the Russian market, this quarter we would have got affected because of this currency volatility, but have things stabilized in the market?
- Arun Sawhney:** Our business in Russia I think most of the represented markets we are doing well, we have seen a pretty healthy sales growth in most of our represented markets in Russia. We have had currency issues in Ukraine and also because of the Ukrainian war, but currency has not had a big impact on our operations in Russia.
- Moderator:** Thank you. The next question is from Prakash Agarwal of CIMB. Please go ahead.
- Prakash Agarwal:** Sir, just wanted some color on the kind of stocking you would have done for our Diovan. Would it be fair to say that we could see a similar performance for the remaining 3-months?
- Arun Sawhney:** You can say that we would expect a similar performance, similar market share in the following 3-months.
- Prakash Agarwal:** So it would be unfair to say that there would have been significant stocking, I mean, normally, we do 4-4.5 months if you launch in first 3 months, would that not be the case?
- Arun Sawhney:** We would not comment on fine business numbers, but we will keep the estimates as I have just indicated.
- Prakash Agarwal:** Secondly, on Nexium, what is our stand because there was a comment recently you had on, if it is not launched in November, we might have to lose the exclusivity?
- Arun Sawhney:** I commented earlier in this call that we believe we have the exclusivity and I will maintain that.
- Prakash Agarwal:** This would also continue post-November if by any circumstances you were not able to launch by November?
- Arun Sawhney:** Like I said, we believe we maintain that we have the exclusivity and we will launch the product upon approval.
- Prakash Agarwal:** Lastly, on the API business. You had mentioned now that you are back on track with Toansa and Dewas, so which would eventually mean that your export business, US and other export geographies, we saw some decline, should be back on track or...?
- Arun Sawhney:** Not US because both Dewas and Toansa are under consent decree, but other than US, yes, you could look for improvements.
- Moderator:** Thank you. The next question is from Manoj Garg of DSP BlackRock. Please go ahead.
- Manoj Garg:** Arun, just want to understand like with currently ongoing geopolitical issue in Russia and Ukraine, have you seen any impact on the business per se or is it only the currency which is impacting us at this point of time?

- Arun Sawhney:** Again, I mentioned earlier in the call, we have seen a business impact on our business in Ukraine. Russia, we are hopeful that our healthy turnaround growth will continue.
- Manoj Garg:** Because like some of your peers outside India, they are indicating that because of this issue and even the purchasing power of the people have also got impacted and which has impacted the overall volume offtake in the market?
- Arun Sawhney:** I cannot comment for the business of the peers, but I can give you comments on what we see in our business.
- Manoj Garg:** Now the domestic business looking back to this 10-12% kind of growth or a little better than the industry growth. How do we see the business panning out – do we expect mid-teens kind of growth now in the domestic market as we move forward?
- Arun Sawhney:** Oh yes, for the four consecutive quarters, the Ranbaxy team in India has turned in better than market performance and I am very confident this improved performance will continue in the coming quarters also.
- Manoj Garg:** We keep on maintaining that over the next 2 or 3 years we will go back to the industry level kind of margins, but if you look at still on a quarter-on-quarter basis for last couple of quarters, we are hovering between 8-9-10% kind of range. So when do we start seeing the actual improvement in the base business margins sir?
- Arun Sawhney:** If you go back to my comments 2-years ago I had said in every half year tranches we should see improvement in our base business profitability and that I think we have been reflecting. Sometimes monthly or quarterly analysis, when you are looking at the total business complexion change, is too short a period, but if you take half year tranches, we should see improvement even going ahead.
- Moderator:** Thank you. The next question is from Anshuman Gupta of Edelweiss. Please go ahead.
- Anshuman Gupta:** Sir, my question was on Ximino™ launch, your branded Derma product. I think a couple of quarters back you had indicated that it could get launched end of CY14 or early CY15. Are we on track for that?
- Arun Sawhney:** I do not have a very accurate update for you. Why do you not take this offline with Virender.
- Moderator:** Thank you. The next question is from Sameer Baisiwala of Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Arun, in Valsartan, 32% market share, most of the times for FTF companies who would win north of 50% market share, is it surprising why this is so low?
- Arun Sawhney:** Here, Novartis has been very aggressive we believe in giving deeper discounts to Medicare, Medicaid programs, they have held on to that market share and that has resulted into. Otherwise, if you look at the generic business, we are having more than 50% market share of

the Generic business. If the deep discounts from Novartis were not witnessed in the market, we would have seen more than 50% market share even in Diovan for our business.

Sameer Baisiwala: Novartis post-discount the price actually matches Generic price?

Arun Sawhney: Let us put it that way, post-discount it remains attractive in the program.

Sameer Baisiwala: Arun, I have a question to what extent you can talk about it, but before the announcement of merger with Sun, if you had 100 employee count, what do you think it is right now, just trying to see what kind of erosion has happened between then and now?

Arun Sawhney: You are talking of the total employee account?

Sameer Baisiwala: That is right.

Arun Sawhney: It would be 99.8.

Sameer Baisiwala: I ask this question simply because we see so much of this in the print. So do you think that the ...?

Arun Sawhney: What I feel is that a company in its normal life would also have attrition. So everything cannot be attributed that there has been a merger announcement and because of that there has been attrition. There could be some attrition attributed to that, but overall we would not say that it is a cause for concern for running the operations of the company, I would not go that far.

Sameer Baisiwala: Arun, the Ipca products that were being sold through Ranbaxy, what is the status over there – have you kind of discontinued them and run out of inventory or are you still in the market?

Arun Sawhney: Ipca has voluntarily suspended shipments to the US. So to the extent that we will not receive shipments from Ipca, we will not be able to sell. If they do not ship we would not be able to sell.

Sameer Baisiwala: And that happened way back in July, so all that is pretty much discontinued business, business gone down to zero?

Arun Sawhney: Yes.

Sameer Baisiwala: Your press release talks about focus on differentiated products. So just wanted to understand, in the last call you mentioned that you got some Derma filings done for the US, so over next 6 to 12 months, do you think we can see some of these launches in the US?

Arun Sawhney: There should be some new launches in the US I think in next 6-months, yes, you should be able to see.

Sameer Baisiwala: Some of that would be differentiated products?

- Arun Sawhney:** Call it either differentiated or limited competition products.
- Moderator:** Thank you. The next question is a follow up from Anubhav Aggarwal of Credit Suisse. Please go ahead.
- Anubhav Aggarwal:** One clarity on the India OTC business, which is Consumer Healthcare business, Volini product, has been seeing a decline in sales for the last three quarters now. What has been the reason there? Out of the two products, which one is facing a decline?
- Arun Sawhney:** I think you should see an upswing in the coming quarters because there was excess inventory in the market and we have some programs to with which we will be coming to the market towards the end of the current quarter and you should see an upswing in the sales of Consumer Health products.
- Anubhav Aggarwal:** But Arun, so much excess inventory it has been three quarters we are seeing a decline. Typically, you will put about only a quarter inventory, right?
- Arun Sawhney:** At the moment, I would keep it there, because if you look at the retail audit figures, they are showing a growth. So that the tertiary sales have grown quite healthily and I think we need to do some corrections over there. You will see healthy trend in growth of all the Consumer Health products in the coming quarters.
- Anubhav Aggarwal:** Second question was on Diovan. On Diovan API, is that your own API or you got it from a third party, because on the comment that base business margins have stayed flattish or roughly a little bit expanded, the profitability on Diovan seems very high and does not show at least indication that you are sharing some profits with the third party on the API there?
- Arun Sawhney:** As a company, we regularly evaluate derisk supply sources and I think we had a good strategic plan and that has helped us.
- Moderator:** Thank you. The next question is from Kunal Randeria of JM Financial. Please go ahead.
- Anmol:** This is Anmol. The Absorica capsules were launched somewhere in early October. Have they been contributed from the current quarter? And if yes, can you just give us the time period during which the sales have been taken into account for the quarter?
- Arun Sawhney:** The new dosages, I think it is too early, let us wait for another good quarter to pass by before we start commenting on that product. We remain optimistic on a new strength of Absorica.
- Anmol:** My second question is obviously I know you do not disclose the exact remediation cost for the quarter, but if you look at the nature of the spend and given Dewas and Toansa, most of it is on the mend. What is the nature of the spend as we speak, what comprises the maximum amount expenditure as a part of the remediation cost at this point of time?

- Arun Sawhney:** Remediation is a comprehensive exercise, there is no particular as a line item where we are drawing from. I think at the moment we will limit our comments to the cost relate to remediation of the facilities and there could be several things in the facilities which would be addressed under the remediation cost.
- Anmol:** Not by the way of number, but just some qualitative color on what are the processes that are being faced so on and so forth, I think...?
- Arun Sawhney:** Any remediation program will have certain elements and that would be elements of our remediation programs whether it is training, whether it is infrastructure, whether it is equipment etc., there are a whole lot of things that we will all simultaneously address.
- Moderator:** Thank you. The next question is from Hitesh Mahida of Antique Stock Broking. Please go ahead.
- Hitesh Mahida:** Actually a couple of queries; one is, our tax rate has gone down significantly over the last two quarters. So what has been the reason behind it and what guidance would you give for future? And secondly, our Western Europe business has seen a good ramp up over the last two quarters. So what can we attribute this to?
- Indrajit Banerjee:** We made good profits this quarter and the tax amount has not moved up proportionately for the very simple reason that quite a bit of the profit has helped in reducing the tax rate eventually, but on the portion of profit that accrues in US and Romania, etc., we have to pay taxes. So it is a little difficult to see a trend here, but it is essentially a function of the amount of profits that is accounted for in the overseas entities, insofar as India is concerned because we have the guide for tax office, we do not have to provide for normal tax, that is pretty obvious. So it depends upon the proportion of profits it has accrued that accrues in India versus accrues overseas, that is essentially the main point. The other question is on Western Europe. Western Europe has been doing pretty well in terms of volume of sales and that has really helped in several countries which have been addressed by Mr. Sawhney earlier. So some of the countries in Western Europe have been doing exceedingly well and that has helped to improve profitability in those markets.
- Moderator:** Thank you. The next question is from Surya Patra of PhillipCapital. Please go ahead.
- Surya Patra:** Just a clarity that I wanted, recently that you have settled some pricing related dispute with the US government by paying something like \$40 odd Mn. I am just trying to understand whether you have taken price hikes in the recent past or last couple of quarters' time for your US matured product basket or because of the US Congress initiatives regards the price, proven the pricing aspect of the generic products, whether you are anticipating a sort of price correction in the overall Generic product basket for the market as well as for your own product basket?
- Arun Sawhney:** I do not think we have any violent price changes in the recent past.

- Surya Patra:** Whether are you seeing any sort of price correction trend emerging , means, increasing competition leading to or increasing regulatory aspect in controlling the prices of the generic products for the US market?
- Arun Sawhney:** At the moment, it is market that already is very severely competitive and that keeps the prices in check. I think US has a pretty strong market forces to keep the prices in check.
- Moderator:** Thank you. The next question is from Shashikiran Rao of Standard Chartered Securities. Please go ahead.
- Shashikiran Rao:** My question is regarding the Hybrid Model that you had mentioned earlier. What is the status of that – are you planning to expand it any further given that you maybe two or three quarters away from merger with Sun? And what is the thought process with Daiichi Sankyo that you have right now on that?
- Arun Sawhney:** The Hybrid Business Model is very much intact, it is under review. And as far as the merger with Sun is concerned I think we will have to wait for that event to see how the hybrid business model travels into the merged company.
- Moderator:** Thank you. The next question is from Abhishek Sharma of India Infoline. Please go ahead.
- Abhishek Sharma:** I had a question on your Asia Pac and Africa business. It has been declining on a YoY basis for the last three quarters. So do you see any structural issues with these markets in terms of your business? And if you could just help us with some color as to what steps you are taking in order to sort of return to growth there?
- Arun Sawhney:** I commented while I was addressing that on the core branded business in Africa we are doing pretty well, we are quite happy. Our growth has been impacted due to loss in sales of ARV which are largely tender-based, low margins, severely competitive business. So, on the core base business of Branded Pharmaceuticals I think we are doing pretty well in most of our key markets. In Asia Pacific region, we had supply challenges in Malaysia. And once we take care of that, I think on the sales and marketing side, we should quickly pick up growth.
- Abhishek Sharma:** Supply challenges in terms of your ability to manufacture and supply these products to the markets?
- Arun Sawhney:** No, again, I commented that, the API from Toansa were now available for a period of time though into manufacture or formulations locally in Malaysia and that created an impact on the supply availability, which I think should get corrected now, and in a coming period, we should return to growth fast even in Malaysia.
- Abhishek Sharma:** The situation on ARV, do you expect that to continue for some time or?

Arun Sawhney: ARV is a tender-based, severely price competitive, low margin business. We will continue to address that business opportunistically, because it is a tender-based business. And our focus will remain on steadily growing the Branded Generic Formulations business.

Abhishek Sharma: And that would be a larger chunk of your Africa business more than 50%?

Arun Sawhney: Yes, going ahead it should be even more.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. Virender Sharma for closing comments. Please go ahead.

Virender Sharma: Thank you, everyone for joining the Investor Conference and good day, everyone.

Moderator: Thank you, members of the management. Ladies and Gentlemen, on behalf of Ranbaxy Laboratories Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.