Emkay Research

TRANSCRIPT

Panacea Biotec Limited

Q3FY10 Conference Call Transcript

Moderator:

Good morning ladies and gentlemen. I am Rashmiya, moderator for this conference. Welcome to the conference call of Panacea Biotec Limited organized by Emkay Global Financial Services Limited. We have with us today Mr. Rajesh Jain, Joint Managing Director of Panacea Biotec Limited.

At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Manoj Garg of Emkay Global Financial Services Limited. Please go ahead, sir.

Manoj Garg:

Thank you Rashmiya. Good morning and a warm welcome to all of you. We at Emkay Global Financial Services are pleased to hold this call and welcome you all to the briefing of Q3 FY 10 results of Panacea Biotec. On behalf of all the participants and at Emkay, we welcome Mr. Rajesh Jain the Joint Managing Director of Panacea Biotec to discuss the results and the outlook of the company going forward. I would also like to thank the management of Panacea Biotec for taking time out for this call. Over to you, Mr. Rajesh Jain.

Rajesh Jain:

Hi, good morning. It's my great pleasure today, to discuss with you our quarter 3 results for financial year 2009-10. During this period, the quarter 3, the company's net turnover grew by 30% and stands at Rs.2281 million as of 31st December 2009 and as compared to Rs.1759 million for the corresponding period of the previous financial year. The formulations turnover grew by 19% and registered a turnover of Rs.639 million as compared to 535 million during the corresponding quarter of the previous financial year. The vaccine segment grew by 34% and registered a turnover of 1644 million as against 1228 million during corresponding quarter of the previous financial year. The company reported 181% growth in its PBT at Rs.167 million as compared to negative PBT of 206 million during the corresponding quarter of the financial year, previous financial year. In the current quarter, our strategic focus has been more on the domestic pharma which resulted in the growth by 24%. And as a major contributor to revenues, vaccine segment has maintained a growth rate of close to 34% in this third quarter. When we look at these results cumulatively, that is nine months ending 31st December 2009; the company registered a net turnover of Rs.5711 million as compared to 5458 million for the corresponding period of previous financial year. The formulation segment registered turnover of Rs.1823 million as compared to Rs.1754 million during the corresponding period of previous financial year. The vaccine segment registered turnover of 3895 million as against 3720 million during corresponding quarter of the previous financial year. The company reported 761% growth in its PBT at Rs.408.5 million as compared to negative PBT of Rs.61.8 million during the corresponding previous financial year.

These were some of the highlights of the financial numbers. However, in respect of the strategic developments, I am very pleased to share with you that our company continues to be one of the three Indian companies closely working with ICMR and DCGI to develop our indigenous Pandyflu H1N1 vaccine. The development is one of the previous prestigious milestones for the company. And the clinical trials have successfully begun after clearance from DCGI. And our timelines remain intact, that is end of March we expect to finish the clinical trials and submit the whole file for emergency use authorization between the periods April onwards. And we expect that, once that is in place within April 2010 we would be in a position to start manufacturing for this stockpile provided the Government of India, DCGI grants us the permission to do that. And on similar lines, we expect that there will be a considerable better performance in the last quarter of the financial year 2010, especially because EasyFive, the new contract of EasyFive from UNICEF will start, will see its execution or rather is in fact being executed today in this quarter 4. And we also expect better business in oral polio vaccine. And we also expect that the wonderful growth that we have seen in the domestic pharmaceutical formulation business will also carry over in the last quarter of the 2009-10. This completes my inaugural address for the quarter 3 results and over to Mr. Manoj Garg.

Manoj Garg:

Rashmiya we can start the Q&A session.

Question and Answer Session

Moderator:

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

The first question comes from, Mr. Srivatsava Venkat from UTI Mutual Fund.

Srivatsa Venkat:

Hello.

Rajesh Jain:

Yeah, good morning.

Srivatsa Venkat:

Good morning sir. I just had a couple of queries. Sir, I see your vaccines EBITDA has come down quite sharply. Is it some one off asset or there is some severe pricing pressure in the OPV segment sir?

Rajesh Jain:

Actually the higher manufacturing cost is mainly attributable to higher raw material cost. The last quarter 3, the raw material cost as a percentage of production was close to 38% which has gone up to 54% in quarter 3. And the main reason for this increase is due to the adverse product mix in favor of OPV is more, I would say material intensive product and increase in overage of OPV which was recommended to us by WHO.

Srivatsa Venkat:

Sir, what my understanding was that the combination vaccine should be more profitable that OPV, because here you are producing that virus.

Rajesh Jain:

This is mainly that you saw the high manufacturing cost going up was on account of OPV. However, the major impact of EasyFive business as I said, would start coming in from quarter 4 this financial year, because the new contract for EasyFive got triggered from January last month. And the first quarter of the calendar year for us will be quarter 4 of this financial year. And we expect that those will start reflecting in our EBITDA much more strongly in Q4 and you will see that the whole 12 months will improve substantially.

Srivatsa Venkat:

Sir is there any possibility that our vaccines business will, over the next 2-3 years will continue to remain at a historical levels or should we look at a much lower level because of the high raw material cost?

Rajesh Jain:

Vaccine business is likely to be growing. Essentially, because on one account, because of the three year contract.

Srivatsa Venkat:

Okay no, no. Sir, my question was on the EBITDA, sir. The EBITDA margins in the vaccine business.

Rajesh Jain:

It will grow. It will grow because you have new products coming in. And generally, by standards new products are high GC contributing and the costs are much lower because the cost of the infrastructure remains same and you continue to add new products to that.

Srivatsa Venkat:

Okay. And sir, just on the H1N1 vaccine sir, can you give us your outlook as to how much of doses you expect? Or whether the ordering will be done by the Government or you expect some sales in the private market also?

Rajesh Jain:

Okay, good question. The answer to both of them is, yes. We expect both Government as well as private sector to start walking in. However, if the Government business was to begin, it should begin somewhere around April, May, June, because that is the time they would expect us to start delivering the vaccines. But then, by that time the product would not be fully licensed. It will be only emergency use authorization. So, during that period, the Government may not allow us to go to the private markets. But then a lot depends on them whether they want to give this product free of charge to what population and what population they will not. However, we expect that our full licensing should be in place by September, October 2010, when we would be anyway allowed to approach the private market. So, after being fully licensed we will be in a position to sell it in the private market and on top if the Government wants to buy for their own needs we would be very happy to supply them. This means that this particular financial year next, we will see some business from H1N1.

Srivatsa Venkat:

Okay. Sir, can you give us some indicative size of the market, sir? What are your expectations?

Rajesh Jain:

I may not be able to do that because we have yet not made it public in any manner. And this being a very confidential information and keeping it through the competition, we may not like to make any public disclosure until and unless we have actually signed the deal with the Government.

Srivatsa Venkat:

Okay. And sir what is the CAPEX we are doing for setting up this facility, sir?

Rajesh Jain:

Close to 45 crores is what we have already done.

Srivatsa Venkat:

Okay. And this CAPEX is fungible, in case this opportunity does not materialize, we can use it for some other key manufacturing?

Rajesh Jain:

Yes. This is a multi purpose plant in which not only this vaccine but several other vaccines can be manufactured including some proteins, peptides and monoclonal antibiotics.

Srivatsa Venkat:

Okay. And sir, can you share with us like what's happening in your earlier initiatives sir, such as your Brazilian foray or your European forays, any positive developments on that front, sir?

Rajesh Jain:

Yeah. We have started receiving the response from Germany BfArM agency. The first list of questions have come to us and we are now trying to respond to it. By April, May we should have all the data that they have requested us to give them. And we expect that thereafter in a reasonable period of time, we will be granting, getting the registrations and the business will also begin in FY 10-11.

Srivatsa Venkat:

But sir, we were supposed to close one partnership deal in this current year, that's what you had indicated last year?

Rajesh Jain:

Yes, yes, we are expecting that to happen within this week or max next week.

Srivatsa Venkat:

Okay. And sir, on the Brazilian front, what is happening sir?

Rajesh Jain:

On the Brazilian front, we have had lot of exchange of communication with the regulatory agency. And the deficiencies that they have reported are being complied and presented.

Srivatsa Venkat:

Okay and sir, any development on anthrax?

Rajesh Jain:

Anthrax, yes. There is a white paper which was invited by the DHHS and we have submitted them last week. So, now they will process it. It's not a bid, but it's a funding that they want to undertake for companies who are willing to supply the product within the next 5 to 8 years. So, once we hear from them, then the game will begin.

Srivatsa Venkat:

Sir, I just had a very broad question sir. I have been tracking your company since 2005, and what all initiatives you have mentioned on the Brazilian front or anthrax or this European front, we have been doing since 2005. There have been considerable delays. So is there some kinds of a structural problem within us or these are all some regulatory delays on which we have no control? I just wanted to understand that, sir.

Rajesh Jain:

Okay. I would not put the entire thing on the one side, whether it is Panacea or the regulatory agency. For us, I think this was the first time when we approached such regulatory bodies in our whole journey. So, obviously there is learning for us. We have made our, we have identified our weaknesses. And I am sure that in the coming filings, we will have much shorter timelines. However, these regulatory bodies also take considerable time in responding. They have six months to respond at their disposable, when you first file the dossier. And then, the moment they respond, they generally tend to respond on the last day, that's the clock stops. And then the amount of data that they ask you from are huge data. And then you need to really compile them and then send them, and then the clock begins. So, in itself it's quite a, I would say elaborate process which consumes lot of time. So, therefore there are learning, I would be very frank to say that, that we have had. But I would not say it is a structural problem, it's only our evolution, nothing else.

Srivatsa Venkat:

Okay, okay. Thank you, sir.

Moderator:

Thank you sir. Next question comes from Mr. Vinit Sambre from DSP Black Rock.

Vinit Sambre:

Good morning sir.

Rajesh Jain:

Hi, good morning.

Vinit Sambre:

I really had this question on H1N1 which you have answered in great detail, only one small thing there. What is the pricing which you are looking at for this vaccine? How does that work, let's say for Government or private sector?

Rajesh Jain:

Again, this is a very classified situation that we are in. We may not like to speak much on it because there is competition that is hovering around us. And any strategic position on this can have, essentially an impact on our market share, because if companies know what we are going to do, under pricing it for better market share would be their strategy. So, we may not like to comment on that. But, I think what we can continue to maintain is that our GC's will continue to be on the same lines that we are operating with.

Vinit Sambre:

And how is the competitive scenario emerging? What is the number of players, who you feel will be serious guys like Cadila or even including the foreign players?

Rajesh Jain:

Cadila, the issue is that, okay, let me say that there are three players who are operating in this field, Serum Institute of India, Bharat Biotech and ourselves. And, fourth one that you already mentioned is Cadila. Actually the issue with the balance three is that they are trying to pursue a technological innovation. And that can have its own harmful effects. Although, what they are doing is to bring a better product in the market. But, what we feel in Panacea is that, this is not the time to innovate. It is the time to bring a time tested, guaranteed product to the market. And therefore, we confined ourselves this time to better execution as the innovation, because the technology of egg-based that we are proceeding is a technology which is around in the world for the last 40 years. Extensive clinical documentation, extensive safety information is already available, which means, we will be ending up with a product. Whereas, the other three companies, if you can see that with Cadila today's newspaper reports, DCGI has yet not given them the permission to conduct the trial because virus like particle is a new technology. I am not saying it is good or bad, but it will take its own time to come to the market. Similarly, Serum Institute of India is pursuing a different nasal administration, which again nobody in the world has seen to date. I am not saying that technology is good or bad. But, it may take more time to prove its safety and efficacy. Similar, is the case with Bharat Biotech, they are trying to pursue a technology of cell culture. Now, worldwide it has been seen that technology has got capacity issues, yield issues. And even Solvay and other American companies which are supposed to be leaders there, have failed to deliver the product on time in US market. So, all of them are pursuing a different strategy. So, if you ask us, we are very confident that we are on the forefront and we shall be able to execute any demand that will come our way because we are pursuing a path which is sure shot.

Vinit Sambre:

So, probably you feel that, you will have the early mover advantage; you will be the first one's to be in the market as far as this H1N1 vaccine is concerned?

Rajesh Jain:

Actually, the path that we are pursuing is not just first to the market. But, what we are trying to leverage is the best in the market share, because of our execution capability. So, it's not the first one to reach the market but the one who supplies the largest quantity, I think could be the gainer. And that is the path that we have taken.

Vinit Sambre:

And who are the other foreign players in this already?

Rajesh Jain:

Government of India, as we hear from the market reports placed an order on Sanofi Pasteur. And it appears from the media reports that the shipments have already arrived at, but that's a very small quantity. Just to make sure that the essential key staffs in health care sector is immunized. And the vaccine has gone for testing, if it is found to be in line with what the Government of India expects then I think it will start getting used from somewhere around March, April only, which means by that time we would also be ready.

Vinit Sambre:

But, how do we assess the market size? How much will Government, what will be the Government demand and how much can be supplied? So, if you can just throw some light on this issue, what kind of demand we can build on?

Rajesh Jain:

It would be difficult for me to take a call on behalf of the Government. But, however, I think, the minimum that the Government will have to make sure that the procure is to cover their military, their police, their hospital staff, their paramedical and medical staff and the high risk group patients especially the young ones, new born and the elderly patients. So, they put together is going to be a huge population, I don't have the numbers off hand as of now. But, they will be the minimum ones that they will have to cover. And apart from that, I think then the next age group is…

Vinit Sambre:

Elderly.

Rajesh Jain:

No. Elderly, is anyway a high risk group and new borns. If I take new borns, there are 25 million new borns. And if you take the age group beyond 60, that in itself will be a huge population. When you total up the whole paramedical, medical staff, doctors, nurses that will be a huge population, again running into millions. And when you are talking about army, navy, air force that and the CRPF, BSF and the normal traffic police people that again is also running into millions. So, it's quite a bit that they will have to buy for their own people.

Vinit Sambre:

And this you will be selling only in India or you are also looking at some of the semi regulator run markets?

Rajesh Jain:

No, no, we are looking at complete emerging markets, rest of the world countries, especially the developing nations. We are looking at all international markets and the registration dossier that we are preparing and the experience that we have had for the last five years will be used to make sure that it's zero defect dossier that we make. That's the attempt that we are doing now.

Vinit Sambre:

So, as of now the status is that the clinical trials are on and DCGI will, you believe that DCGI approval can come in by March?

Rajesh Jain:

March-April, last week of March and beginning April. Once we have filed the dossier, we expect that the way he has been supporting us, the whole office, it will be subjected to an expedited review. And any question and answer will be given in the face to face scientific advice meeting.

Vinit Sambre:

And what is the capacity which we are building here?

Rajesh Jain:

This again, I may not be able to announce due to competitive reasons.

Vinit Sambre:

Okay. And secondly on this EasyFive, if you can generally elaborate as to what is this opportunity size and how much are you looking at in the current year?

Rajesh Jain:

The contract value for three calendar years starting from this year 2010, 2011, 2012 is close to 225 million dollars. And we expect 25 million dollars and to be executed every year costing around 70 to 75 million dollars from this calendar year.

Vinit Sambre:

So, every year about 70-75 million dollar?

Rajesh Jain:

Yes, yes. Depending upon the exchange rate this can be around 300 crores.

Vinit Sambre:

Okay. Yeah. That's it from my side. Thank you very much.

Rajesh Jain:

Okay, thank you.

Moderator:

Thank you sir. Next question comes from Mr. Sangam Iyer from Alfa Advisors.

Sangam Iyer:

Yeah, good morning sir.

Rajesh Jain:

Good morning.

Sangam Iyer:

Sir, if you could help me out with the break up of your vaccine sales in terms of tOPV, mOPV and the pentavalents etc.

Rajesh Jain:

You are asking quarter 3 or nine months?

Sangam Iyer:

Sir, quarter 3 and also the nine months, if you could give me, that would be good.

Rajesh Jain:

Quarter 3 as well as the nine months, let me try. Quarter 3, it is 79 million doses of mOPV1 and mOPV3 20 million doses and tOPV 134 million doses.

Sangam Iyer:

How much does it account to in terms of value, sir?

Rajesh Jain:

Value is around 153 crores.

Sangam Iyer:

All the three put together?

Rajesh Jain:

All three put together is 153 crores.

Sangam Iyer:

Can you give me the break up?

Rajesh Jain:

mOPV1 49 crores approximately, mOPV3 12 crores approximately, tOPV 82 crores approximately. This is all pertaining to quarter 3, 2009-10.

Sangam Iyer:

Yes sir. And how much of pentavalent sale we have in quarter 3?

Rajesh Jain:

In this quarter we had close to 18 million doses and 15 crores. Value is 15 crores and I think quantity, I am not very sure, is it 1.8 million or what. I can get back to you.

Sangam Iyer:

Okay. Sir, how was this compared to Q2, sir? Because, if you were….if I am not mistaken, we were expecting the better margins mOPV1 shipment which we started from October and that was supposed to help the margins in this last quarter. However, we see that the vaccine margins have been gone down significantly, even on a quarter on quarter basis as well.

Rajesh Jain:

The major reason was that we had to add overages as recommended by WHO in all the formulations cut across mOPV1, 3 and tOPV and bOPV. And that made the product more costlier. And since the contracts were already done so we had to supply them on the agreed prices but with increased cost.

Sangam Iyer:

When you see overages what is that mean?

Rajesh Jain:

More raw material; more raw material, producing the same doses.

Sangam Iyer:

Okay. So, would that be the kind of the raw material requirement going forward as well in terms to get a sense of how the margins will be?

Rajesh Jain:

Yes, yes, the cost will also increase in the coming years. However, the contracts are valid only until end of 2010. And for 2011 and 2012 we will be given an opportunity once again to relook at our prices, the sales prices.

Sangam Iyer:

Okay. Sir, what would be the incremental losses or something that would happen because still we have it in calendar year 2010?

Rajesh Jain:

Pardon?

Sangam Iyer:

I mean, incremental loss in the profit that would have because of increase in the raw material usage, as asked by the WHO for these shipments as compared to the original agreed?

Rajesh Jain:

Actually, it has gone up almost 16% from 38% raw material cost as a production value, it has gone up to 54, so there is a 16% increase. So, we expect that, that will continue through the year, calendar year 2010.

Sangam Iyer:

So the 54% would be the average raw material cost that one should be looking at, for this segment?

Rajesh Jain:

Yes, yes. And in terms of actual value, I don't have that on top of my hand. But, that's what in terms of percentage, it has been.

Sangam Iyer:

Sir, in terms of your total deals that we had signed, for calendar year CY 10, what is the kind of shipment in terms of value dollars that we are looking at for these various segments?

Rajesh Jain:

You mean for which product?

Sangam Iyer:

Sir, the tOPV, mOPV1, mOPV3, bOPV which is expected to start as well, from January. You know, for these segments there is a deal that we have till CY 10 and then subsequently you would be entering to new deals from CY 11?

Rajesh Jain:

Okay. Let me read out the…

Sangam Iyer:

The balance amount that is yet to be supplied, which would accrue as revenue for us?

Rajesh Jain:

For the quarter 4?

Sangam Iyer:

For the quarter 4 as well as for the financial year FY, for the next nine months as well.

Rajesh Jain:

Nine months, we may not be able to say anything as of now. But, quarter 4 definitely, let me just push through my papers and look for the data.

Sangam Iyer:

Sure sir.

Rajesh Jain:

Vaccine segment we are expecting, 313 crores for the quarter 4 2009-10, that's cut across all formulations on the mOPV1, mOPV3, bOPV, tOPV and EasyFive. I may not have the product wise individual break up as of now. But, when you will look at this on a year on year basis, the whole business would have grown by 29%.

Sangam Iyer:

Okay sir. If I were to put it in a different way, what was this, I mean the total supply that we did to WHO and UNICEF in FY 09, the first nine months FY 10 and the balance that we are looking at with respect to the deal that we made?

Rajesh Jain:

Actually, we don't compare vaccine business quarter on quarter.

Sangam Iyer:

Not on business quarter on quarter basis, say for example say, if we had entered into an agreement like you said for EasyFive, it's a 225 million dollar agreement for the next three years. So, similarly, we have earlier entered for agreements for tOPV1, mOPV1 and mOPV3 as well as bOPV for a period of say, 2 years or 3 years. And so far we would have shifted a certain amount say X in FY 09. Could you share that data, how much did we do it so far, how much of that contributes?

Rajesh Jain:

You mean the deviation, the deviation, plus or minus?

Sangam Iyer:

Yeah, and how much is left in terms of to be supplied for this calendar year, because CY 10?

Rajesh Jain:

Actually I can give you only for this quarter. I may not be able to give you any forecast beyond April 2010 onwards. And if you want to see what they place and what they actually buy, they generally tend to end up buying more than what they project. That has been our experience and that is the feeling that I carry as of now. But, if you want to ask me in actual numbers, I don't have the data ready, because generally it is 2 to 3 years and I don't have it at hand.

Sangam Iyer:

See, basically what we are trying to understand is that, whatever the FY 09 revenue out of this segment and what was your profitability in FY 09, because your profitability in third quarter as you rightly said as per your instructions the raw material cost has gone up. So, it means that the profitability has impacted for the same business in FY 10. So, can you just give us some perspective that what was FY 09 profitability on what revenue and what is your FY 10 expedite revenue and at what profitability?

Rajesh Jain:

Okay, just hold on for a second. My partner will respond to you, he is our CFO, he has the financial perspective.

Mr. Partha:

Hello, you wanted to understand what is the profitability of FY 10-11, right?

Sangam Iyer:

Basically, what I am asking sir.

Rajesh Jain:

In 2010, over 2008-09.

Sangam Iyer:

Yeah, what were your FY 09 revenue and profitability, what is your FY 10 revenue and profitability? Since the contract is going to continue up to December 2010, what is the likely impacting up to December 2010, in terms of your profitability? See, the raw material cost has gone up.

Rajesh Jain:

April to December 2010, we will not be able to give any statement as of now. However, we will give for the rest of the things that you have asked.

Sangam Iyer:

Sure sir, thank you.

Mr. Partha:

First one, let me tell you, you wanted to know what is the impact of the first nine months? Am I right?

Sangam Iyer:

Yes sir.

Mr. Partha:

So, first nine months, what we will say, our turnover last year nine months was 547, this year it's 571; this is the top line. Now in terms of operating profits, that means EBITDA, last year it was 159 and this year it has become 100. And that drop is mainly attributable to Dr. Rajesh Jain, as he told because increase in overage and this year we have sold more tOPV as compared to the mOPV3 which we sold last year.

Sangam Iyer:

And what is the, the roughly break up in terms of the revenue for nine months '09 versus nine months FY 10?

Mr. Partha:

Just give me a minute, I'll tell you. You want the vaccine revenue?

Sangam Iyer:

Yeah. What was your nine months FY 09 versus nine months FY 10 between the mOPV and the two products which you have mentioned?

Mr. Partha:

mOPV, tOPV, mOPV3, I'll tell you, just a minute. Can you note down 2008-09 turnover?

Sangam Iyer:

Yes sir.

Mr. Partha:

2008-09 mOPV1 was 236, mOPV3 was 97 and tOPV was not there, EasyFive was 18 and the others was 17, so total 368 plus 4 was another others thing, so that's 372 was the total turnover.

Sangam Iyer:

Okay. So, this is basically for nine months '09 or?

Mr. Partha:

Nine months 2008-09, nine months 2008-09.

Sangam Iyer:

Okay sir. This is nine months 2008-09 and for nine months FY 10?

Mr. Partha:

FY 10 I am telling you. mOPV1 was 49, mOPV3 is 47, tOPV is 214, EasyFive is 58 and others is 21, total coming 390.

Sangam Iyer:

So, basically it is 0 to 214, which is having the lower the profitability.

Mr. Partha:

Yeah, yeah.

Sangam Iyer:

I see. And also it is a reduction from 236 to 49 which is also making the profit lower, is it?

Mr. Partha:

Yeah, that is one. In fact another is the mOPV3 which is the most profitable product; it has also come down from 97 to 47.

Sangam Iyer:

I see, that is the most profitable?

Mr. Partha:

Yeah.

Sangam Iyer:

The second one, the most profitable will be which one?

Mr. Partha:

Sorry?

Sangam Iyer:

In terms of the profitability ranking, how do you rank this? 97 is the most profitable.

Mr. Partha:

Yeah. mOPV3 is the most profitable.

Sangam Iyer:

Okay then, which is the next?

Mr. Partha:

mOPV1, then tOPV.

Sangam Iyer:

I see. So, basically going forward, I would not push for the numbers but as we move forward in terms of the overall break up of, similar break ups, would you see improvement in your…how basically do you see the mix? Do you see the mix to continue to be remain like this?

Mr. Partha:

No, in the next year EasyFive will be more, which is a profitable product.

Rajesh Jain:

And then this mOPV1, 3, tOPV it is not in control of anybody, neither the buyers, because, it all depends upon the disease epidemiology. Depending upon where, in what form the viruses are appearing, they will choose a product and then let us know.

Sangam Iyer:

Okay. Generally what is the lead time? At what time you come to know that you have to supply so much thing?

Rajesh Jain:

Generally I think, it is 3 to 4 weeks. So, we keep a minimum inventory for all the products lying with us. And then the moment the off take is there, we tend to replenish it by similar quantities. By the end of the year, you come to know, which product actually got sold off high.

Sangam Iyer:

I understand. So, do you expect the fourth quarter train is going to be just like your third quarter train in terms of your revenue mix?

Rajesh Jain:

No, this quarter we will have sales of bOPV, Bivalent OPV adding up.

Sangam Iyer:

Okay. And in terms of the profitability, how that breaks up compared to all other your mOPV?

Rajesh Jain:

We don't expect much change because the overages have been added cut across all formulations. So, that 16% difference will be, still be visible. However, because EasyFive has got an execution, it will show better margins in Q4.

Sangam Iyer:

The EasyFive profitability is in line with mOPV3 or is it like mOPV1?

Rajesh Jain:

Almost, yeah. Almost like mOPV3.

Sangam Iyer:

mOPV3, the EasyFive.

Rajesh Jain:

Yeah.

Sangam Iyer:

I understand. Okay. I understand. So, basically it means we lost money on this. When a particular product mix changes, we loose money because also with regards FOREX impact of, you know you sold at 47 and bought some raw material at 50, something like that. So, is it that, you are loosing money proportionally in one of your products?

Rajesh Jain:

Not really. I don't think so we bought any product at 50 because 50 was the rate prevailing last year. And this year, the rate is around 46-47, more or less the same.

Sangam Iyer:

So, what is your basic FOREX policy? What do you do? As soon as you get the contract, maybe already, as you start supplying, you book your raw material in line with that or you book it much ahead of time?

Rajesh Jain:

No, we take those calls now every quarter. We don't do any kind of hedging. We did it once and those contracts will be over by FY 11, after that the new policy will take calls almost every quarter, although, we monitor it every week.

Sangam Iyer:

Okay. When you say that up to February 2011, you have done the FOREX thing, can you just tell us, what is the total value of this and at what rate?

Rajesh Jain:

Close to Rs.39, now the rate prevailing. And the value uncovered is 79 million dollars, are still to be settled with. And every month we are settling 7.7, close to 7 million dollars every month we are settling.

Sangam Iyer:

Close to 7 million dollar you are settling?

Rajesh Jain:

7.7 every month and the total up to Feb 11 close to 79 million.

Sangam Iyer:

Okay. And this is at 39?

Rajesh Jain:

This is at 39, yes.

Sangam Iyer:

In terms of the revenue or in terms of the raw material?

Rajesh Jain:

No, no, this is the dollar exchange rate hedging that we have done, that we did few years back.

Sangam Iyer:

I see. So, what is that, because of that have you made some loss in the third quarter?

Rajesh Jain:

Not this quarter, last year we had already forecasted, booked the losses. This year it is going to reverse because the dollar rate has improved. So, at least Rs.4 will be credited back and that call we will take 31st March.

Sangam Iyer:

So, for the first nine months, is there any FOREX gain which we have not booked but which we will be doing at the end of the year? If let's assume that dollar remains at around 46 and now 47.

Rajesh Jain:

Yes, yes, I'll tell you the figures, just hold on. 36.23 crores is what will get added. We expect that if the dollar rate remains more or less the same.

Sangam Iyer:

Okay. And in first nine months we have not provided what the FOREX gain in your P&L account?

Rajesh Jain:

No, we have not.

Sangam Iyer:

And, the likely treatment whenever it happens, will it directly go to reserves or you will show it through P&L account?

CFO:

Through P&L.

Rajesh Jain:

Through P&L.

Sangam Iyer:

Through P&L account, okay. And going forward you are saying your policies going to be, what is going to be your policy going forward, you will do in line with your revenue visibility?

Rajesh Jain:

Actually what has happened is that we have got now exports much higher than our imports. The export business to international market is increasing, so there is a natural hedge now which is available within the system. And therefore, we would avoid making any future long term contracts. All calls will be taken on quarterly basis. No long term commitments in terms of foreign hedging.

Sangam Iyer:

Okay. Sir, would you like to give, for the benefit of all of us, would you like to give some highlight on how do see full year FY 10 and full year FY 11 revenue and operating profit margin?

Rajesh Jain:

Full FY 09-10, we expect 25% growth close to…over 2008-09.

Sangam Iyer:

In revenue?

Rajesh Jain:

Yeah. And in terms of 2010-11, I am not in a position to make any public statement as of now. However, we know that we have been growing at compounded annual growth rate of around 25% to 30% in the last five years and we will maintain that.

Sangam Iyer:

I see and in terms of the operating profit margin?

Rajesh Jain:

Operating profit margin on 2009-10 is higher than, just hold on.

Sangam Iyer:

Sir, in FY 09, we reported 25% operating profit margin.

Rajesh Jain:

Close to 20% to 25% and maintaining.

Sangam Iyer:

Okay. This is without considering FOREX gain of 36 crores, correct?

Rajesh Jain:

Yeah, yeah.

Sangam Iyer:

Correct?

Rajesh Jain:

Yeah, yeah.

Sangam Iyer:

I see. Sir, finally sir since you guided for a Q4 number of around 313 crores, that also includes your bOPV, new segments?

Rajesh Jain:

Yes, yes, everything. All vaccines put together.

Sangam Iyer:

I see. And you said that you will maintain margins around 25% for FY 10. What is your 9 months' margin at operating levels?

Rajesh Jain:

What I said is between 20 to 25; however, nine months I will give you.

Sangam Iyer:

Is it between 20 and 25?

Rajesh Jain:

Yeah.

Sangam Iyer:

Okay. Not 25.

Rajesh Jain:

No, no, not 25. It is close to 16%.

Sangam Iyer:

Your nine months margins are 16%?

Rajesh Jain:

Yeah.

Sangam Iyer:

And for the full year, you are saying 25% revenue growth and your operating profits growth will be, how much?

Rajesh Jain:

Close to 20%.

Sangam Iyer:

So, if you want to achieve 25% revenue growth and close to 20% operating profits growth, that implies that, we are assuming significant improvement in operating profit margin in the fourth quarter over nine months?

Mr. Partha:

No, I think 20% of the, the EBITDA will be 20% of the sales we said.

Sangam Iyer:

Okay. EBITDA will be 20% not 25%.

Mr. Partha:

No, no, 20%. He has not said growth. He said EBITDA percentage will be 20% to 25% of the sales.

Sangam Iyer:

EBITDA will be 20% only.

Mr. Partha:

Yeah.

Sangam Iyer:

Okay, so, in the first nine months it is 16%.

CFO:

It will improve to 20%.

Sangam Iyer:

So full year we will do 20% in the margins?

Mr. Partha:

Yeah.

Sangam Iyer:

So that means, in the fourth quarter we are implying significant improvement in operating profit margins?

CFO:

Yeah.

Sangam Iyer:

And that will be primarily driven by?

CFO:

Driven by the vaccine growth. EasyFive, bOPV all will be in place. So we are expecting a better margin.

Sangam Iyer:

I see. Okay fine sir perfect. Thank you very much.

Moderator:

Thank you sir. Next question comes from Mr. Arpit Kapoor from UTI Mutual Fund.

Arpit Kapoor:

Hello sir. All my questions have been answered, just one clarification. The biopack would be an open offer and not a tendering thing, right?

Rajesh Jain:

Yes, it will be an open offer.

Arpit Kapoor:

Okay, thank you sir.

Moderator:

Thank you sir. Next question comes from Mr. Alok Agarwal from Striver Capital.

Alok Agarwal:

Yeah. Good morning sir. I just want to understand this tendering business, my worry is like, is tender business may not be replicable. Some years it could high, some years it could be lower. Some years it could happen, maybe let's say few years down the line when the WHO, whosoever the body is or the Indian Health Ministry feels that polio has been more or less eradicated and why not discontinue with the tender or reduce the size of tender, that's one. Second, the related question is, when are you planning to go retail in your vaccine business? I mean there is a huge market, although it calls for a huge expenditure in terms of building up the marketing network but what's the plan on that?

Rajesh Jain:

Okay. When it comes to the Government business my response is, yes. Government business is a bumpy business. It can go up and go down, when you will see it in quarters. But when you will see it in multiples of years, you would find that the business will always rise. And more so, because we are not dependent on just one product, we have a range of products for different diseases which are now getting launched and the first evidence was EasyFive. So, we are not expecting polio vaccine to be a growth driver anymore. We are expecting that in the next three years polio will maintain its baseline. However, the growth will come from EasyFive. Now, when it comes to the next part of the question that once polio gets eradicated, what happens? There is enough evidence which is available by WHO in terms of guidance that the developed countries have already declared that polio immunization will continue up to 2025, but not with oral polio vaccine but with injectable polio vaccine. And they have now left this choice with each individual country to decide their policy after 2015, once polio gets eradicated which is their current prediction, what strategies they would want to evolve. However, there is enough evidence which is available which says that they would recommend almost every country once they take a decision that they pick up depending upon the affordability either low dose IPV or the normal dose IPV. But, more or less it is very clear that every country will go ahead with IPV immunization. Although, the price of IPV is much higher than OPV, so we expect if the volumes go down through price again the base business will be maintained and the product will change from OPV to IPV. But that is beyond 2015. Now, the next question was I think in retail market. We already have a joint venture with Novartis, which is called as Chiron Panacea Vaccines. And in fact, we are in India, the number one company in our set of vaccines that we are marketing. So, we are already exploiting for the last three years, four years the private market in India and will continue to do so. However, there will be one change that from 2010-11 onwards we will be adding lot of market internationally. So, the private market in the coming years will substantially grow. But the truth of the matter is that worldwide whether it is US, Japan, developing countries or India, 70% of the business for vaccines shall always remain institutional business and private market will be close to 30%. So, 30% of the revenue will come from private and 70% from Governments because it comes under the public health priority and they would want to immunize the whole world through their money rather than leaving it to people to decide whether to immunize or not. So, it will be a 70-30 ratio.

Alok Agarwal:

See, coming back to the vaccines industry like, what's so special about your R&D, that you have an edge over your other player like Serum Institute or Bharat Biotech, Shantha or any of these? Where does the skill set lie?

Rajesh Jain:

Actually this is something to do with our focus. We have focused on innovation. And when you talk of focusing on innovation, it was encouraging the people to think differently ahead of time. And when you want to think differently ahead of time, the whole company structure is different, it's not a command and control system. It is an empowered world where people take their own decisions and move forward. So, ours is a completely process based organization where people are empowered and they are allowed to actually think differently right from whether it is your sales and marketing or it is R&D or it is accounting, finance, we have teams which work rather than function. So, it's not a functional structure. We have already moved from a functional structure based company to a process based company.

Alok Agarwal:

Yeah. Sir, my other query relates to your R&D asset. I think you do some 50-60 crores of expenses. So, how much is that recurring in nature and how much is one time in terms of CAPEX?

Rajesh Jain:

Just hold on.

Alok Agarwal:

And what do we see down the line, the trend also for research?

Rajesh Jain:

Current 9 months it is close to 38 crores and previous year it was 34 crores.

Alok Agarwal:

Sir, I just wanted the split between the CAPEX and the recurring kind of R&D expenditure.

Rajesh Jain:

9-10 you are expecting 61 crores.

Alok Agarwal:

Yes sir. And going forward?

Rajesh Jain:

Going forward we are maintaining, we are maintaining, we are not leaving that.

Alok Agarwal:

Maintaining?

Rajesh Jain:

Yes.

Alok Agarwal:

So, this means R&D as a percentage of the sales will drop as some kind of a turnover growth, top line?

Rajesh Jain:

We don't see it that way. We don't see it that way that it is increasing or dropping because in terms of the activity, the activity is continuously increasing. However, what happens is that over a period of time because you really do not know when the opportunity will get commercialized, certain quarters in a year you will see the expense rising up because two third of that is only for development and only one-third of that is on research. It depends in which quarter you actually end up billing your clinical trial cost.

Alok Agarwal:

Alright, clinical trial cost maybe.

Rajesh Jain:

Yes. So majority two-third of that is only clinical trial cost.

Alok Agarwal:

Okay. This has been like your products which have come out in H1, which may come out by March-April, like depending on whatever the time it may take. Is there any other product in the pipeline where R&D is going on seriously and you plan to take on in terms of commercialization of this product?

Rajesh Jain:

Yes, Q1 next year there will be two products that will simultaneously get launched from vaccine. And several products from (inaudible) and you can see that in the next 3 to 4 years lot of new product launches will happen from Panacea which are currently in development.

Alok Agarwal:

Okay, so one more question like, forgive my ignorance. My question is currently if I want to target the US as a market, what kind of approvals you need to sell your vaccines?

Rajesh Jain:

Vaccines in US and Europe we are not targeting before 2016-17.

Alok Agarwal:

2016-17, that long a timeframe?

Rajesh Jain:

Yeah, because majority of these are covered by patents. Although, there is an opportunity in Europe to enter 2013-14 which we are exploring, but in US it will not be before 2016-17. Once, the patent expires we will enter. But, that does not mean that our registrations will not be carried out. However, within 2010-11 we would be in a position to start discussing with them and keep the dossiers ready so that, the day the patent expires we enter the market.

Alok Agarwal:

Does the Novartis joint venture extend to the other market also or is it just for India?

Rajesh Jain:

No, currently it is only for India.

Alok Agarwal:

So, why the logic? When you are building your marketing shores for your pharmaceutical business, can't the same marketing set of people sell your vaccines as well?

Rajesh Jain:

From head office point of view, from the, let's say the key resource team point of view, you are right. They will be able to do that. But, as I told you, the nature of the business in vaccines is more towards institutional markets rather than private markets. And on the contrary, pharmaceutical is more private market rather than institutional market. It's totally opposite business. So, the key resource team will be able to lobby with the Government and provide, help us provide the breakthroughs as and when needed.

Alok Agarwal:

And this Novartis JV also is more towards institutional business not towards retail in that sense?

Rajesh Jain:

No, actually it is towards retail. That business we are doing only for retail. Institutional market you don't need field force and all so that we have the core competency in the company for our global sales all over the world, so that we manage ourselves not through the JV.

Alok Agarwal:

Sir, another related question to this tender business, since the business is like a why a tender and everybody knows like either there is some kind of an understanding between the players who are bidding or there could be a some kind of a severe undercutting which may happen for whatever reasons like, have you seen that kind of a case?

Rajesh Jain:

No, sorry. We don't kind of get together in any manner to decide any kind of pricing strategy. Each company is kind of doing that very confidentially at their own level. And when it comes to actually undercutting or overpricing, UNICEF guidelines on selection of suppliers is very clear, transparent and open. They don't just go about prices, which mean that even if we are the costliest we will continue to get a particular percentage of the market share. It is not on cheapest who gets the largest. However, we continue to believe that for the developing world, especially for the low income countries, the lower prices will get some kind of preference when it comes to that. However, having said that even higher prices they want to continue to keep those manufacturers in the loop because generally those are innovators. And since they want innovation to be nurtured and they want new products to come to the market, a certain amount of market share is always reserved for them. So, it's not simply a price cutting market, but obviously they want the best at the cheapest.

Alok Agarwal:

Then this kind of a business involves a lot of lobbying with the UNICEF and WHO kind of a body to increase the market share? Is that true?

Rajesh Jain:

I don't say lobbying, but I would say more understanding of the customer and its changing needs. So, that we do pretty well now having worked with them for the last, almost more than ten years and more so specifically in international markets for the last five years. We now try to; we now understand them much better, because they not only promote innovation but now they want innovation at the best price. So, that is now our endeavor in the next five years, how do we respond to their changing needs that not only they want innovative products but they also want at a competitive price.

Alok Agarwal:

Right. Okay sir, one last question in my side like, looking at the competition from 3 or 4 players like as I said, Serum Institute, Shantha or there are other players as well. Who are the serious competitors according to you besides Serum Institute, everybody knows because it is a large sized company, if I am not mistaken, but 1000 crore kind of a size or it's more than that now?

Rajesh Jain:

Sorry, could you repeat that your question?

Alok Agarwal:

I just want to understand the competition like? How serious is the competition? Besides Serum Institution and Shantha Biotech who are the serious players in this business besides your presence?

Rajesh Jain:

Okay. I can't give you an inside view of their companies because I don't run them. But, from outside point of view we do not foresee much competition. But, I am sure that each of those companies are very exciting and they have their own business agenda to pursue. And obviously they will kind of tow us, if they see as a threat in the coming years. But, the kind of strategy that we have, I am personally very confident that they will not pose from our standpoint of view any serious threats. But, having said that, we are not going to be kind of living under this thought that we are the best, no. The market keeps evolving, the competition keeps evolving. There are smarter people outside your company which are always behind you and would want to walk over you. So, with that kind of environment we are operating in, wherein the customer actually wants more and more with less. So, I am not saying that we will not have competition, we will have. But then, the best part with us is that we will be able to outsmart them.

Alok Agarwal:

Right. I just want to know in vaccine, like there's been I am sure it's been existence for a long time, that's a known method of research. I will just take a parallel with that in pharma mode. From chemical entities you have improved to biotech kind of, or a biological kind of research. Is there any trend in the vaccine also from the known patent of research to moving to some innovative new ways to develop vaccines?

Rajesh Jain:

Yes, yes. In vaccine today, in one sense is much easier because you have lot of help available from international organizations like WHO, from institutions in US like NIH they really come forward. And also organizations like Bill and Melinda Gates Foundations and several other organizations which give you money, they give you access to strains; they also help you understand technology. And in biologicals to actually have a product patent is very difficult, it's only the process because generally these are biological entities already known to human kind. So, getting a product patent is very difficult, so what you need actually is a new route. And with all that help available from global bodies, getting to a new process for the same thing actually becomes easier. Although it is kind of similar, involves the entire in terms of investment and time, the same like in chemicals and CE. So, there is a positive side that it is easier and there is a negative side, there is that no 100% exclusivity. So, you will continue to have competition but at the same time you will continue to have access to products with lot of help from, unlike pharmaceuticals you don't get any help from any other body. You have to do it all alone.

Alok Agarwal:

Okay. So the last question from my side with regards to your gross block which almost tripled in last three years, what kind of a CAPEX you see next three years or you see with the cash flow generating you will start reducing your debt?

Rajesh Jain:

I think close to 80-85 crores is the current year and expenditure on CAPEX and that's the ratio we are likely to maintain, nothing bit coming up. All that big has already come up and in the last few years. And now the focus is actually leveraging those assets and producing more and selling more.

Alok Agarwal:

So, which means your debt will start coming down from next year onwards as the cash flows will be more than your CAPEX, right?

Rajesh Jain:

Yes, that's what we expect. Yes.

Alok Agarwal:

Okay. And the current gross block can sustain some 1500 crores kind of revenue for vaccine business? Is it possible?

Rajesh Jain:

You told that questions are over and even after that you are still asking.

Alok Agarwal:

Sorry, sorry.

Rajesh Jain:

No, no, no, I will answer don't worry, I will answer. Can you repeat that once again? Please ask.

Alok Agarwal:

My question was, since there is so much of CAPEX in the last three years can we sustain a vaccine revenue of 1500 crores?

Rajesh Jain:

Actually, I will not get into the operations again, but I can tell you that this business is growing and especially because we have a three year contract with us. And that contract value in itself is 700 crores approximately depending upon the exchange rate on an average; it will get added to our top line. Even if the OPV business does not grow and the trends in the domestic formulation business that we are seeing it is growing and with all those registrations which are now getting, were held up in Germany and US will get through in 2010-11. So, you will start adding pharma business, you will have EasyFive adding on to it, and then you will have rest of the world countries which were held back from 2010-11, 2011-12 adding up. So, all this is only telling us that the business is improving and there is, this is the only thing that can happen to us. The business cannot go down. We have gone through the worst in 2008-09 and the only thing that can happen to us is only good. Market is improving, foreign exchange, rates are getting more predictable, registrations are going to follow in, the collaborations are likely to happen, and orders are in hand, it's the best phase that we are likely to go through.

Alok Agarwal:

Okay. And all the best wishes and I am sure you are going to go places. All the best, sir.

Rajesh Jain:

Thank you sir. Thank you.

Alok Agarwal:

Thank you.

Moderator:

Thank you sir. Follow up question comes from Mr. Srivatsa Venkat from UTI Mutual Fund.

Srivatsa Venkat:

Yeah sir, can you give us an update on the health care project sir? How was it and in what stage it is?

Rajesh Jain:

Because of the Haryana State Elections, few, rather I would say several months back, the Government had not taken any decision on our project that we submitted. And now it appears, once the Government is back to that moratorium period is over, so they are now reviewing our files and we expect that within this month, in fact we were expecting last month approvals will come through. But, they are still not in our hand. As soon as, approvals come through of the plans drawings everything, so we will start looking at building the whole project from thereon, from then on.

Srivatsa Venkat:

Actually, what's the total investment we have made in this project from Panacea?

Rajesh Jain:

Up to now only we have only bought the land and paid up for the equity that we have acquired which is close to 17-18 crores to date.

Srivatsa Venkat:

And sir, what is the current debt as on 31st December?

Rajesh Jain:

740 crores is the total debt, secured being 537 and unsecured being 203.

Srivatsa Venkat:

That is mostly FCCBs?

Rajesh Jain:

Yes, that is mostly FCCB, right, absolutely right.

Srivatsa Venkat:

And sir, can you just explain the rationale for doing the biopack sir? Because your debt is also pretty high and this biopack will also involve some kind of cash flows, can you just give me the rationale?

Rajesh Jain:

See, this is a position that we are trying to explain the market factors, in the next 3 to 5 years the company is going to generate a lot of value. And we are trying to only reassure all the investors that please hold on to our stock because the best is yet to come and do not panic. And therefore the only way to prove that is, put money on the table. Mere statements we thought may not help investors because the environment around the industry and the international is something that the company cannot control. However, we can control all our actions. So, each and every quarter coming out with a statement that the business is growing and it will be better, is not enough is what we thought. And since, we are a research driven Innovation Company, we thought that it is important to make moves which will help them understand that this business is here to stay and would grow. And the only way to prove that was put money on the table. And that's what we did.

Srivatsa Venkat:

Okay fine. Okay, thank you. All the best sir.

Moderator:

Thank you sir. Next question comes from Mr. Krudent Chheda from Value Quest Research.

Krudent Chheda:

Hello. Sir, our tax rate in this quarter was 50%, was there any deferred tax?

Rajesh Jain:

Sorry, could you repeat that?

Krudent Chheda:

Our tax rate in this quarter was around 50%-55%.

Rajesh Jain:

Tax rate?

Krudent Chheda:

Yeah. Tax to PBT.

Rajesh Jain:

Tax to PBT? No, no, let's get hold of those figure first, I will respond to it. What we have shown is deferred tax liability, 12,96,00,000 out of that is a deferred tax.

Krudent Chheda:

Sorry, how much?

Rajesh Jain:

12,96,26,773 is the deferred tax liability. That's why you see the whole figures.

Krudent Chheda:

For nine months?

Rajesh Jain:

For nine months, yeah.

Krudent Chheda:

And sir, for this quarter, what was the current tax figures and deferred tax?

Rajesh Jain:

Okay, just hold on. Current tax is 5.83 crores as per MAT and deferred tax is 12.93.

Krudent Chheda:

In nine months you are talking about?

Mr. Partha:

In nine months. In totality, we are about 19 cores.

Rajesh Jain:

In total for the nine months period is 19 cores, 18.35.

Krudent Chheda:

And sir for Q3?

Rajesh Jain:

For Q3 separately, I will just give you. In the mean time, if you have any other question, you can go ahead.

Krudent Chheda:

And sir, regarding biopack will there be an open offer or are we going to buy it from the market?

Rajesh Jain:

As of now, open offer.

Krudent Chheda:

Open offer, up to 230.

Rajesh Jain:

Yeah, more or less, 229. 2.5 is the MAT for Q3.

Krudent Chheda:

Okay. And around 7 crores is the deferred tax.

Rajesh Jain:

Yeah.

Krudent Chheda:

Okay. And going forward for the next year, tax rate would be around 15%-17%?

Rajesh Jain:

Due to MAT, yes. Due to MAT, it will be that range.

Krudent Chheda:

Okay sir. Thanks a lot.

Moderator:

Thank you sir. Follow up question comes from Mr. Sangam Iyer from Alfa Advisors.

Sangam Iyer:

Sir, just a follow up, in terms of the first nine months number that we have I am just trying to reconcile. We have done around revenues of around 575 crores and EBITDA of around 105 crores in all?

Rajesh Jain:

Yes.

Sangam Iyer:

And sir, we are talking about a 25% growth in the top line in FY 10 and an overall EBITDA margins of around 20%. Which would effectively mean that we need to do around 190 crores in this financial year, so around 90 crores in the last quarter, is that what we are looking at?

Rajesh Jain:

No, no. We will be doing close to 381 crores in Q4 and which is almost equal to 60% of what we have already done in nine months.

Sangam Iyer:

In terms of the, on the EBITDA front?

Rajesh Jain:

On the EBITDA front, okay, just let me calculate that. EBITDA will be nothing but a reflection of what the top line will be in Q4. In Q4, we expect EBITDA to be 28% to 30% in Q4 specifically.

Sangam Iyer:

And what is leading to this significant increase in the EBITDA?

Rajesh Jain:

Contribution majority from EasyFive and bivalent Oral Polio Vaccine.

Sangam Iyer:

So, is the Q4 trend around 28%, something that one needs to look at going forward. Because, you know the next year you will see the full impact of the EasyFive shipment and also the bOPV shipment coming in?

Rajesh Jain:

Yeah, yeah. Next year will be better. Next year will be better because as you rightly said, EasyFive and bOPV are likely to be the products which will be in use. But it is very difficult to start predicting them. EasyFive, we know, for three years it is going to be there and it is going to be strongly there. But in terms of mOPV1, 3, tOPV and bOPV, out of those four products, two products, mOPV3 and bOPV are high margin products and mOPV1 is the next one and then tOPV. So, depending upon the product mix, the whole cost will be decided. And to that extent, it remains unknown.

Sangam Iyer:

Could you give me a tentative, the kind of operating profit that you get on the tOPV1 segment, in terms of the margins? Since, that is the lowest, so what is the tentative?

Rajesh Jain:

Approximately, 25% is what we expect. EBITDA levels.

Sangam Iyer:

From the tOPV1 segment?

Rajesh Jain:

No, no, it is all put together. It will be very difficult, because there are quarterly changes, there are national country changes, there are product mix changes. It is very difficult to start predicting quarter wise, product wise EBITDA levels.

Sangam Iyer:

Sir, when you said, in Q4 we are looking at around 28 to 30% EBITDA margins, does that mean that our margins in bOPV and EasyFive is so high that it is actually offsetting the increase in the raw material usage that happened in Q3 and you expect it to continue for the coming quarter?

Rajesh Jain:

Yeah, in some sense, yes.

Sangam Iyer:

Okay. Could you give me some ideas a ball pack wherein, where, to what brackets one could look at in terms of the margin profile for this segment?

Rajesh Jain:

That we may not be able to do, due to competitive reasons. However, we want to just let you know that EBITDA level on an average we are expecting 25 with peaks and valleys always around this projection.

Sangam Iyer:

Okay. And sir, your tax rate that you said for Q4, how much would that be?

Rajesh Jain:

MAT, we are looking at 15% MAT, around that range.

Sangam Iyer:

15% in Q4.

Rajesh Jain:

Yeah.

Sangam Iyer:

And, in FY 11 onwards?

Rajesh Jain:

It will be normal tax rate here after.

Sangam Iyer:

Which would be around what, 26%-27%?

Rajesh Jain:

No, 20. 20-21.

Sangam Iyer:

20%-21%?

Rajesh Jain:

Yes. Because we have done Baddi plant from where tax advantages come to us. We have R&D investments, where vetted tax 150% is the rate. So, we have few advantages on our account.

Sangam Iyer:

Sir, this 15% that you indicated, does this include the deferred tax also?

Rajesh Jain:

No, no that does not include it. This is the minimum alternative tax, we are talking about.

Sangam Iyer:

Okay. And how much would the deferred tax component be?

CFO:

Component at present is 12.96 crores.

Rajesh Jain:

12.96 crores in value terms.

Sangam Iyer:

In the first nine months?

Rajesh Jain:

In the first nine months, absolutely.

Sangam Iyer:

Okay. So this is excluding the Q4, this is just the minimum tax that you pay in addition would be the deferred tax, whatever would be liable?

Rajesh Jain:

Yes.

Sangam Iyer:

And any idea on that sir? How much would that be or something like that, expected?

Rajesh Jain:

It has to be calculated, that we don't have the figures on hand now. This is more of a call for the quarter 3 results, so that's why some of the data might not be available.

Sangam Iyer:

Okay sir, I'll give you a call later to get that data.

Rajesh Jain:

Yeah absolutely. You are most welcome to do that.

Sangam Iyer:

Sure sir. Thanks a lot sir.

Moderator:

Thank you sir.

Rajesh Jain:

Monoj ji if there are no questions then…

Manoj Garg:

Yeah, we can. Rashmiya, can we just give a vote of thanks?

Moderator:

Yes sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. Now I hand over the floor to Mr. Manoj Garg for closing comments.

Manoj Garg:

On behalf of Emkay and all the participants, we thank the senior management team of Panacea Biotec for sparing their time for this conference call. Thank you one and all. Thank you very much sir.

Rajesh Jain:

Thank you. You are most welcome, bye.

Moderator:

Dear participants, this concludes the conference call. Thank you and have a pleasant day.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

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