“Dr. Reddy’s Q3 FY19 Earnings Conference Call”

February 1, 2019

Amit Agarwal: Very good morning and good evening to all of you and thank you for joining us today for the Dr. Reddy's earnings conference call for the third quarter ended 31st December, 2018. Earlier during the day, we had released our results and the same are also posted on our website. This call is being recorded and the transcript shall be made available on our website soon. All the discussion and analysis of this call will be based on the IFRS consolidated financial statements.

To discuss the business performance and outlook, we have the leadership team of Dr. Reddy's comprising Mr. Erez Israeli – our COO; Mr. Saumen Chakraborty – our CFO; Mr. Anil Namboodiripad who heads the Proprietary Products Business and the Investor Relations team. Please note that today's call is a copyrighted material of Dr. Reddy's and cannot be rebroadcasted or attributed in press or media outlets without the company's expressed written consent.

Before I proceed with the call, I would like to remind everyone that the Safe Harbor language contained in today's press release also pertains to this conference call. Now, I hand over the call to Mr. Saumen Chakraborty, our CFO. Over to you sir.

Saumen Chakraborty: Thank you Amit. Greetings to everyone. I am pleased to inform that we have been able to sustain our financial performance in this quarter. Let me take you through the key financial highlights. For this section, all the amounts are translated into US dollar at the convenient translation rate of Rs. 69.58 which is the rate as of 31st December 2018.

Consolidated revenues for the quarter are Rs. 3,850 crores that is $553 million and grew 1% both year-on-year and sequential basis. In previous year, we had Rs. 130 crores of out-licensing revenue in our proprietary product business, adjusted for which the year-on-year growth would have been 5%. Despite the pricing pressure in some of our key products in US, arising out of new competition, we were able to grow our revenue which was supported by improvement in the volumes of existing products, new product launches, contribution from new market and favourable forex.

Consolidated gross profit margin for the quarter is 53.9% registering a sequential decline of 110 basis points which is majorly attributable to the price erosion in the US market. Gross margin for Global Generic and PSAI were at 57.6% and 30.8% respectively. The SG&A spend for the quarter is Rs. 1,204 crores that is $173 million with a sequential quarter decline of 3% and at similar level on year-on-year basis. We have been taking several measures in cost optimization and the same is reflected in our spend trend. The SG&A cost is 31.3% to sales for the current quarter as against 32.6% for Q2 FY19.

R&D spend for the quarter is Rs. 367 crores that is $53 million and stands at 9.5% of the sales for the quarter. The R&D spend is lower by 21% year-on-year and by 11% on a sequential quarter basis. While certain part of the reduction relates to the productivity improvement initiative taken by us, it is also lower due to timing gap with respect to certain development-related spend. We expect that the R&D spend will increase in next quarter, however, the full-year spend is likely to be lower than the preceding year.

We continued in our journey towards cost optimization and productivity improvement in the areas of manpower, SG&A, R&D and asset utilization. In line with our objective, we have concluded the sale of the API manufacturing business unit located at Jeedimetla, Hyderabad. These measures will lead to an improvement in our cost structure and enable us to be leaner and more cost-efficient organization. Other income includes gain of Rs. 42 crores on account of sale of the API manufacturing business unit as aforementioned.

The EBITDA for the quarter is Rs. 865 crores that is $124 million which is around 22.5% of the revenue. The effective tax rates for the quarter is around 16.4% and ETR for the full year is expected to be lower than our earlier estimate, may be in the range of 15 to 17%. EPS for the quarter is Rs. 29.21.

Operating working capital decreased by around Rs. 946 crores, which is $136 million during the quarter. The decrease is primarily attributable to the sale of trade receivables and improvement in the DSO in the US market. We invested Rs. 153 crores which is $22 million towards capital investment in this quarter. The free cash flow generated during this quarter was Rs. 1,512 crores, which is $217 million leading to a significant improvement in our net debt equity ratio which is 0.13 as on 31st December 2018.

Foreign currency cash flow hedges for the next 12 months in the form of derivatives for US dollar are approximately $300 million, largely hedged around the range of Rs. 69.1 to Rs. 73.5 to the dollar. In addition, we have balance sheet hedges of $352 million. We also have foreign currency cash flow hedges of 1,855 million Rubles at the rate of Rs. 1.08 to the Rubles maturing over next 12 months.

With this, I now request Erez to take through the key business highlights.

Erez Israeli: Thank you, Saumen. Greetings to all. Thank you for joining us today for this earnings conference call. Let me begin with the current quarter performance highlights. I am glad to inform you that we continued with our growth momentum in this quarter and have performed well across our businesses. Please note that all references to numbers in this section are in the respective local currencies.

The North America Generics revenues got stabilized and for the quarter are at $209 million with a sequential growth of 1%. During the quarter, we witnessed decent improvement in the volume uptake that helped us offset the product specific price decline impacting some of our key products due to new competition. Overall, we see stabilization in the trend at the broader portfolio level.

This quarter was very busy in terms of new launch activities with record number of new launches in a quarter over the last 5 years. In all, we launched 10 new products including some very exciting limited competition products like Colesevelam, Dipyridamole Aspirin XR, Sevelamer sachet, Sevelamer unit dose and Omeprazole OTC tabs. We are excited about the opportunity potential and contribution from these launches and gearing towards the gradual ramp up over the next few months. We will continue in this journey in the next few quarters and will be fairly busy with multiple new product launches lined up including some exciting limited competition opportunities. As communicated earlier, we continue to work towards potential approval and launch of gNuvaring in the first half of calendar 2019 and that of gCopaxone in the second half of calendar 2019.

On the gSuboxone, as you are all aware that during the quarter, the Court of Appeals of the Federal Circuit issued a decision in company's favour to vacate the preliminary injunction. On December 20, 2018, as part of the standard procedure, Indivior filed a petition seeking rehearing of the appeal. On this, the Court sought our comments to which we immediately responded. We are awaiting for the court decision on this matter.

Let me also update you on the status of the two warning letters impacted sites. In October 2018, the reinspection for the sterile injectable plant in Duvvada was completed and the US FDA issued Form 483 with 8 observations. We have comprehensively responded to these observation and we just now have received certain specific questions from the agency seeking further clarification on some of our responses. With respect to the API manufacturing facility in Srikakulam, we have submitted the results of the investigation and responded to all the queries asked by the US FDA and await for reinspection of the facility.

The Europe business recorded sales of EUR 25 million with a sequential growth of 5% on the back of improvement in supplies and new launches. During the quarter, we launched two products in Germany and 4 products in the UK including Fondaparinux. We would continue to launch new products in the future in this market.

The emerging market business recorded sales of Rs. 774 crores continuing its strong performance with growth across all key markets. The overall business grew 31% year-on-year and 3% on a sequential basis. This all-round performance was outcome of (1) healthy growth in the base business; (2) new product launches in the existing market; and (3) contribution from the newer markets. These geographies are expected to remain a major growth driver for the company over the next few years.

The India business revenues are at Rs. 674 crores with a year-on-year growth of 10% and a sequential seasonal decline of 2%. As per the IMS, we have performed better than the market for the three months ending November 2018. As a result of this sustained performance, our ranking improved by one place. India is the priority market for us and we remain committed to consistently improve our performance and grow better than the overall market.

The PSAI business revenues are at $83 million, a year-on-year decline of 1% and a sequential decline of 5%. We believe that the changes in the API landscape have created opportunity for us and we are preparing ourselves to serve the market.

On our proprietary product business, we recently received US FDA approval for our intranasal Sumatriptan DFN-02 under the brand name, Tosymra. We believe Tosymra has a favourable profile to benefit large segments of migraine patients whose episodes are not optimally controlled with the current treatment, particularly orals. Prelaunch activities are underway and we are preparing for a launch in the next few months.

On the R&D front, progress on our key pipeline programs is on track. During this quarter, we have filed 3 ANDAs in the US market and as of 31st December 2018, we have 103 cumulative filings pending for approval with the US FDA which include 100 ANDAs and 3 NDAs. The ANDA filing rate will improve further in the next quarter. For our biosimilar business, we have started Phase III trial for Rituximab for developed markets. For our Proprietary Product business, we expect to file the NDA for DFN-15 by Q1 FY20. Development on E7777 for CTCL indication in the US is on track and we expect to file the BLA by Q1 FY21.

On the business development, in line with our recently stated growth strategy, we have started to divest non-core assets and we will further continue to do more of this, which will help us to focus and channel our resources towards growth spaces. We also look forward to inorganic growth opportunity with right return on investments. Overall, we feel quite optimistic about the 6 chosen spaces; US Generic, India, Russia, China, API and Global Hospital business. We have started to make the right moves, which focus on profitable growth, shareholder returns, cost efficiency and quality.

Let me share with you some quick updates on the additions to our senior leadership team. I am pleased to announce Mr. Marc Kikuchi joined us as the head of North America Generics business. Marc brings with him extensive knowledge and vast experience in the generic space. During the quarter, we also on-boarded Sandeep Khandelwal as India Business head and Dmitry Sovetkin as the Russia Business head. These new leaders along with our existing strong leadership team will help improve our key business processes and drive growth for the company in chosen strategic spaces and will enable the company to exploit its potential and with that, I now open the floor for questions and answers.

Prakash Agarwal: This is Prakash. Just wanted to check on two things. One is the gross margins, so the business has grown and especially the branded generic businesses have grown, which is India and Russia, so I am not able to understand why the gross margin is so low, would it be due to the US pressure for key products and then what is the concentration risk on the top 5 and top 10 products in the US?

Saumen Chakraborty: You got it right, it is the US which is the primary contributor for this sequential decline, but it is not that low. We have been already saying that quarter to quarter, there will be fluctuations in the gross margin and it is definitely within the range that we have put it. We have been able to sustain margin despite a lot of price erosion in the past because of lot of focus that we have been putting on productivity improvement and cost, so this is here we got 53.9% for the quarter. It is very much within the range that we target.

Prakash Agarwal: And any particular product which would be in the base sir?

Saumen Chakraborty: No, it depends on you are comparing with which, suppose you have compared with the same quarter last year and last year same quarter, we had the Sevelamer launch, so it was a very high value product and then, if you compare on that basis, definitely that would contribute to both in terms of the top-line as well as on the margin it contributes.

Prakash Agarwal: And are you sharing the concentration risk, please top 5, top 10?

Saumen Chakraborty: So our concentration risk has come down what initially, if you take a 40% of the revenue in USA in earlier years, suppose it would have been in just 5 molecules or so, now it is almost 10 molecules which contributes to 40%, so to that extent our concentration risk has reduced.

Prakash Agarwal: And lastly on the net debt which you mentioned has significantly come down due to lower working capital also, what really has happened, you mentioned 2 things on the reduction in working capital, if you could give more colour on that and secondly, what are our thoughts on using the low leverage we have. Are we looking for something in the specialty area or more complex area in the US? Are we open to that idea?

Saumen Chakraborty: First to clarify about the free cash flow in the first quarter, it was actually negative which was compensated in the second quarter and this quarter we are significantly good, free cash flow we generated and there the working capital has contributed because the decrease is on 946 crores, so one of the things that we have introduced this quarter is factoring of whatever receivables that we have got in US, some part of it we have been selling and then otherwise, there is an overall improvement in the receivables all across the businesses, and some improvement in payable as well. Inventory, we will have to still improve, there is scope but if as and when we launch some new products, then definitely on inventory front also, there is a further scope of improvement. Now our net debt to equity ratio is very healthy at 0.13, but we as a company are more prudent in terms of taking financial risk because there is always an operational risk which is there. Now in terms of opportunity, there will be always opportunities to expand in several of the business in our chosen spaces which Erez can again highlight and it all depend on whichever comes across as attractive and after doing diligence if we feel something worthwhile, we will not hesitate because this is also one area of growth, not only organic but also inorganic growth, but we are not specifically committing ourselves that it is in the specialty or any such thing.

Neha Manpuria: Sir, if you look at the improvement in the ex-US business in the last couple of quarters, obviously there has been a pickup in India and Russia, if you could just give some colour on what specifically we are doing in this market to see this growth momentum?

Saumen Chakraborty: So while Erez can dwell it on more, but I wanted to clarify that emerging markets, the growth in the rest of the markets other than Russia is higher than the growth in Russia. Russia would have grown by, say 22%, whereas in CIS countries and rest of the world, the growth is very close to 40%, but overall, 31% has been the growth in emerging market. In India, of course, year-on-year, it is 10%.

Erez Israeli: In respect of the content of this growth, in the case of Russia is primarily the big brands, they performed very well, actually 9 months by now, so we have a lot of confidence in those brands and would continue to invest in them and the rest of the world, this is primarily hospital product, so it is a combination of penetrating with specially oncology product to some of the markets plus yield of a portfolio that was submitted and now getting mature in the places like Latin America, the re-launch of Omez in Romania and some other areas. Overall, it is a great performance plus these markets are fairly profitable, so we are encouraged by this performance.

Neha Manpuria: And what about India sir?

Erez Israeli: India is going nicely. For us, we continue to see the growth and we continue to perform well in this market. In addition to that, we have the new leadership team, I mentioned Sandeep and introduced him also in this call in addition to other members that came and we are both executing this here plus determining ourselves for further growth in the next coming quarters and years.

Neha Manpuria: And my second question is on the cost, while SG&A has improved partly because of efforts, etc., in the last quarter, the reduction in R&D, you mentioned that some of it is timing issue. As we look at more over the next 2 years, given we have talked about making proprietary and biosimilar self-sustaining, how should we look at our R&D run rate?

Saumen Chakraborty: So normally on an absolute basis, we have been spending, say $250 to $300 million on R&D, but 60% of that we spend in generics including API, remaining 40% we allocate it to proprietary products, that is the maximum, then biosimilar and small percentage in Aurigene and other. That is how it has been traditionally and this year also, we planned for similar level of absolute spend and the way it stands today, it looks like it will be a bit lower than what we initially estimated and that definitely started seeing the kind of productivity improvement which is happening also in IPDO area because we have not reduced the intensity of R&D in any side at all and going forward, in order to make proprietary products and biologics more self-sustainable, we are looking at various options to how to do it because we got a good pipeline in biosimilar and if we have to take it for US and Europe markets, it calls for a right kind of funding, so we are looking at options. We will get back to you as and when we finalize some options.

Erez Israeli: As related for the generics, naturally the growth that are expected in places like China, India and Russia will require some R&D resources. So overall we are looking for how overall the R&D will contribute, R&D naturally is very important for us, it was and will continue to be our main growth engines. Overall, we want to contain the overall spend of R&D primarily on efficiency while we want to develop more products, so actually the yield that we are expecting from R&D is more products than we previously did in the recent years.

Neha Manpuria: And sir, just one follow-up question. You mentioned that the filing run rate is expected to pick up, could you give some colour as to what is the number that we were looking at, given we want to expand our US portfolio?

Saumen Chakraborty: In Q4 itself will be much more than cumulatively what we have done in the three quarters for USA market, but as Erez said, there is a lot of R&D efforts are going on for various other markets including China and many other emerging markets and India, so overall ask rate from R&D is much higher and he spoke about the generics area.

Sangeeta Purushottam: I just wanted to understand what do we see as the growth drivers for the top-line as well as profitability going forward. This year, a significant part of the profit improvement has happened because of a strong control in cost and some stabilization in the US operations. Now, going forward into next year and the year after, how should we think about it, do we think that the cost improvement will continue and do we see any kind of pickup happening in the US market, in terms of the base business or is it going to be driven primarily by the launch of the products which are in the pipeline the specialty generics?

Erez Israeli: So on the current growth, just to add to what you said is naturally the performance in India and the emerging markets, this is the major contributor to the growth this year. Just the two components that you mentioned. In addition to that, we had also great effort on the balance sheet and overall there is a big improvement in many forms over the company, I think we will continue with that. Also next year, there will a major focus on cost. We believe that there is also further room for improving productivity and we are planning to do so. We are planning to grow and gearing for that in all 6 spaces that we have mentioned, so all 6 spaces are gearing to grow, exactly how much we are not giving guidance, but this is the general expectation.

Andrey Purushottam: If you analyse the performance over the last 12 months, you said that you managed to keep your revenues flat by a mixture of increased volume from existing business and new business launches, so I just wanted break up of how that has happened, so how much of volume increase have you experienced? How much of price erosion you have experienced and how much of gain in new business have you experienced?

Saumen Chakraborty: It is not two, we just said there are 4 factors, volumes for existing products, new product launch, contribution from new markets and also favourable forex. We will have to understand that the last year, dollar to rupee was much lower than what it is currently going on, so all these factors have contributed. Now in market wise, in different markets, the ratio will be different, the US market will be different, Russia will be different. For example, in Russia, apart from performing very well in some of the mega brands that we have there, we also have a new product there this year. That has contributed significantly. Now, so far as US is concerned, there has been price erosion which is applicable for the industry. For us also, there would have been a few products on which there have been much more competition, so consequent erosions will look more on those specific product and so the ratios are very difficult to give at a granular level like that but we have a lot of information for the company. We provide in 6-K and I am happy to announce that this time, we have filed 6-K today itself. As we are speaking, we just filed 6-K, so may be all of you who are in the call, when you refer to the 6-K we are filing along with our result announcement today. Normally, there are some day’s gap which used to happen in all the quarter, this quarter we have been able to do it simultaneously. So, can you get into the second question?

Andrey Purushottam: How do you see the price erosion, particularly in the US market panning out over the 12 months for the industry as a whole and for you?

Erez Israeli: I wish I could predict price decrease. If I could do that, I would be very rich man by now, so I can tell you what we see. We don't see equalization anymore. This is over. When we see competition at specific product, naturally there is a price decrease. We believe that this will continue to happen. Products that we recently launched naturally will see also price erosion over the time when more competitors will come, so this dynamics was and will continue to be in the US market and we need to address it and this is what we are planning because of the nature of our portfolio as the nature of our portfolio is promising and the base is relatively low. We believe that we can offset these with new launches, efficiencies, cost reduction and market share.

Anubhav Agarwal: One question is on PSAI business. We have reported gross margin of almost 31%. I mean that is like one of the highest we reported in the last 4 to 5 years. Is this a new normal or when does it moderate for us?

Saumen Chakraborty: First, I have always maintained in the past that there will be quarterly fluctuation. When we talk about PSAI business segment, there is API and there is CPS and between the two, obviously we get more contribution from CPS in terms of the gross margin but even though the API is the larger part of the business, so when we get very good order for CPS with high margins, that can increase the margin when it is in a normal that will be reduction. Similarly at API, the kind of margin that we are having, it is very difficult to say that it is at a particular level every quarter. There will be fluctuation, but our endeavour is to get a gross margin level of 30% for PSAI segment.

Anubhav Agarwal: So CPS orders are typically for 6 months or less than 1 year duration, so that is the way we should take it, unless we repeat this kind of performance, this good performance may continue for another one or two quarters?

Saumen Chakraborty: It always depends, we continuously scout for new customers and new kind of requirement even for CPS, so it goes on. It is like a flow, so you cannot say a specific order which will be there for few months, it all depends on when you get and when you really deliver and what kind of improvement of margin is happening specifically in that quarter. So that is why I am saying, when we already talked about the sustainance of the margin, there could be some quarter where it is much lesser than our expectation, but some quarter which could be even higher, but target wise it is at that level.

Anubhav Agarwal: And one question I had on the personnel cost. Now, for the first 9 months, we have seen personnel cost increased by 4% year-on-year. Is this the trend you expect for full fiscal 19, as a whole that personnel cost increase remains around mid-single digit?

Saumen Chakraborty: First, normally if you would have seen Dr. Reddy's manpower cost has been on a higher side, compared to even industry, we have been on a higher side and trend wise, every year there would have been an increase year to year. Last two years, specifically the previous financial year and in the current financial year, we have been able to contain the manpower cost very well. There are some portions of the manpower cost which will be because we have a large number of people who are employed overseas and if year-on-year, there is a Forex rate goes up, while the Forex has a favourable thing around the top-line and margin, but so far as, some of these costs, including material and this manpower, it works in a negative way. So on a constant currency basis, if you really look at, we have been doing a very good containment of manpower cost on the back of the productivity improvement initiatives that we have been having.

Anubhav Agarwal: Can we assume around mid-single digit kind of growth rate at constant currency?

Saumen Chakraborty: You know very well that we really do not give financial guidance to that extent that you can do an exact model for yourself. We help you in some of the areas within a specific range. We have been telling you that we have been focusing a lot on productivity improvement and some of the expense in a sense. Beyond that I cannot be more specific.

Saion Mukherjee: Sir, I have a few questions on the proprietary product business, first on DFN-02, I am just wondering is the label in line with what you have expected and how should we think about launch and cost associated with and if you have any peak sales expectation that you would like to share?

Anil Namboodiripad: The label for DFN-02 is very much in line with what we had expected in terms of onset of response and the efficacy rates. We are in the middle of preparing for launch. At the same time, we are looking at other options as well to see whether we can expand through partnerships and so on. As far as peak sales go, it hasn't changed from what guidance we have given in the past. Our market research clearly indicates that there is a large number of migraine patients today who can benefit from the properties of this drug and so as far as guidance for the peak sales, I think it is in line and we have spoken before about it as well.

Saion Mukherjee: And on the cost, in terms of launch-related cost, anything we should, if it is material, we should factor in our estimates?

Anil Namboodiripad: I cannot comment on the exact cost for launch, it will be typical of any specialty product. We expect it to be slightly higher than what we have invested to launch Zembrace because this is the much larger product and a larger prescriber base. We expect the sales force to increase by around 15% or so and adequate marketing investments to make sure that there is significant awareness of this product as it comes on to the market.

Saion Mukherjee: Sir, just one follow up on the filings for some of the other products which you mentioned in your opening remarks, on DFD-03 you have not made any mention there, so what is the status, are we still progressing with that product?

Anil Namboodiripad: We are making certain determinations in terms of whether or what the market potential for that drug will be, so at this point I cannot comment on what our plans are with this product.

Saion Mukherjee: And just one more question sir, on the PSAI front, you mentioned about some strength in the API business, actually the segment has been stagnant for many years now, so how should we think about PSAI business as a whole from a growth perspective going forward?

Erez Israeli: PSAI, will grow, we are now focusing on it and give its importance. There are a couple of reasons why we believe that it will not be stagnant in the future. One is the products that we are working on and second is the fact that the competitive landscape is changing as we speak. We discussed quite a few times about the changes in China. This is naturally still relevant and I believe that the primary focus for us now is to give attention to those area that we believe we could grow and execute on them, so for us it is a space for growth.

Sameer Baisiwala: Just following up on both Nuvaring and Copaxone. Erez, you gave us the timelines, but just wanted to understand a bit more what is behind these timelines. Last I remember, you had responded to FDA in full. So is there anything which is pending for these two products as did FDA come back and are there any pending queries?

Erez Israeli: We are in the weekly and biweekly calls with the FDA, so we are receiving questions and queries on the product. There is nothing that is in form of CR and we are addressing those questions, so it looks like these timelines are still on track as we discussed last time.

Sameer Baisiwala: And you would say your answer applies to both these products in equal measure or is Nuvaring a bigger priority for FDA versus Copaxone?

Erez Israeli: The timelines are different because Nuvaring is in pipeline**,** so with Nuvaring we expect 6 months and with Copaxone we expect 10 months. We are still in this area of expectation, subject to the fact that we will not get another CRL.

Sameer Baisiwala: And just on biosimilar, Erez, I missed the name of the products for which you are targeting the BLA filing?

Erez Israeli: This is E7777, it is an asset that we acquired years ago and it just has biologic application, so this is the product, which we called E7777**.**

Sameer Baisiwala: And you said one more product I thought.

Erez Israeli: This is the product that I mentioned.

Sameer Baisiwala: And just talking about Rituxan where you mentioned that you are taking into Phase III clinical and there is one thing because we are at the cusp of market opening up in US, and Europe has already opened, so all things going right, you would be fifth or sixth player. Does it make any sense to put money behind these kind of assets?

Erez Israeli: We use the US FDA as opening gates for many many markets that wants to get to the US quality and they don’t have the own standards, so it is not necessary to launch in the US. If it will not make sense to launch in the US, we will not do that, we will not lose money on that.

Sameer Baisiwala: Sir, with your permission two more if you don't mind, one is on the receivable, Saumen what has changed for which receivables have come down so dramatically. Are the contractual terms changing with your customers?

Saumen Chakraborty: I mentioned in USA, we have started factoring, that means we have been selling some receivables with very small discount factor, so that is helping. Beyond that there were earlier receivables which we have got in this quarter. Overall, there is an improvement in the receivable as well as in the payable side. Only thing I said that the other part of the working capital which is inventory where there is opportunity, but we will have to move towards that direction. Maybe with some of the launches, there will be improvement in that front.

Sameer Baisiwala: And final one for the US market, Erez how is the market behaving in terms of, you talked about volume gains over there, what was driving, are you seeing competitors exit and that is what striving your market share volume gains?

Erez Israeli: We are giving a great service to the US customer and they like us.

Sameer Baisiwala: Why are they liking you now more than what they had liked you for last few quarters and years?

Erez Israeli: I guess we are giving a better service. Seriously, we do see certain opportunities on the current molecules and it is a mix of supply situation and our ability to gain share because of certain agreements with the customers and focus, it always work.

Mehul Seth: Just one clarification about the products that had been procured from Teva, the Nuvaring. Is it a calendar 19 opportunity?

Erez Israeli: Yes, absolutely, we mentioned that it is in the first half of the calendar 19.

Mehul Seth: And quick question on the taxes also if that is okay. Since last couple of quarters or last 3 quarters, we are witnessing a significant lower tax rate whereas the guidance was something higher for the full year, so whether this is a new norm that we are seeing currently or what is it? Any guidance for the future period?

Saumen Chakraborty: What I said is what could be for this year. What would be for the future years, I will be able to only give you some indication at the beginning of that year as we complete our planning process for that year. At this time, it was lower, primarily there are three reasons and when you read 6K, you will find there. Last year, you see there was the reduction of the federal income tax rate, which was 35 to 21, so because of that there was higher tax implication, so year-on-year comparison that affect us, but this particular quarter, there have been two things which has happened. There is some resolution of a certain tax matter in company's favour which results in reversal of some income tax expense pertaining to earlier years and also there is some claim of deduction of an item in the current quarter, which was previously disallowed for tax purpose. So these are things which in the beginning of the year we could not factor in or estimate and that is why now for the year, we feel our ETR could be in the range of 15 to 17 but next year, I will be able to tell you when we are announcing the full year result.

Mehul Seth: Just one more question on the growth outlook where about the revenue growth, you have indicated that okay, it is the emerging market and India which will be driving and you have also emphasized more on the new market entries. So can you indicate something more on the new market aspect and what is your growth outlook for the US business considering the price indication what you have given earlier and considering the kind of pipeline what you have provided a hint on?

Erez Israeli: Actually, we are not giving guidance but we did indicate that all 6 spaces, that we have mentioned are going to grow including the United States including the other spaces. Specifically for the other markets, there are a bunch of small countries and each one of them are primarily based on either biologics or hospital product as the primary space that each one of them is picking up primarily based on B2B model that doesn't require a lot of S&M activity. Here we are leveraging our portfolio, which was developed for the US and selling it in markets that do need this product.

Mehul Seth: And any indication that you are providing for US, I know that you are not giving any guidance but last two years, we have been seeing a kind of declining trend?

Erez Israeli: The reason that we are not giving guidance is because you never know in the US, you can get 60% discount, you can get 90% discount, you can get 10% market share, you can get 40% market share, so we cannot predict that well, but overall our portfolio is promising and we are in a very very good wave of launches.

Nitin Agarwal: Sir, on the emerging market business, we have had two very solid quarters in the ROW business, just wanted to check, should we take the base that the revenue that you have done in the last quarter as a base for this business? Or there is going to be an element of lumpiness in this business, given that there is a surging of hospital business which will be driving this business?

Saumen Chakraborty: If you open a new market, for example, say, Columbia we opened 2 to 3 years back and this was one country where we became profitable and started making an impact right from the year one itself. For Brazil, even though this is not the first time we have got into Brazil, but this time when we have gone to Brazil, backed on these hospital products for oncology and all the complex generic, which we are leveraging out of the US complex generic portfolio, the growth has been very good. So the thing is there are opportunities, but it is completely linked with the kind of product that you can launch in these markets and then how much you can grow and already I said that is the global hospital business will be one of our focus area and we expect to grow there.

Nitin Agarwal: Secondly on the US, we keep going back to the top 3 products which are the 3 filing that we have, I just say overall perspective for the next 2 years, how much of our growth would be really contingent on how well do we do on these products? I mean a broad quality difference, how would you sort of explain that bit?

Saumen Chakraborty: There are 103 ANDAs which are pending approval as on date and we have been continuing to file, so these three products are prominent. We have been discussing overtime and these are very important and it can provide very key impetus for our growth there, but the reason that we are spending so much on R&D is with the expectation of creating value in several markets and US is the very key market for us to create that endeavour.

Nitin Agarwal: Sir last one is, on R&D, how should we look at R&D spends moving forward? As a percentage of revenue, is there a way that you should be looking at? Or in absolute growth in dollar terms? How are we looking at our R&D spend view over the next couple of years?

Saumen Chakraborty: As I said, may be this year, there is an improvement in the productivity. Quarter-on-quarter, there could be some timing issues, but overall for the year, it could be slightly lower than what we normally would have been spending, but as a ballpark figure, $250 to $300 million per year on an absolute basis is the right kind of indication of the R&D commitment for us. As a percentage of sales, it will depend on how much sales we are generating. So I have more to take on an absolute manner.

Anuj Momaya: Sir, can you let us know what is the status of Revlimid litigation? Where are we in that?

Erez Israeli: We are basically, there are 3 forms of these products, whether the indication patents or polymorph patents and we have of course the REMS patents, so for each one of them, we are proceeding nicely with all forms. We believe that we have a very well good position on this one.

Anuj Momaya: So when are you hearing some of these litigations are during, any timeline you can suggest for this?

Erez Israeli: We are not providing timelines, once it will come we will know.

Amit Agarwal: Thank you everyone for joining us today for the conference. In case of any further query, please reach out to the investor relations team. Thank you.