Dr. Reddy's Laboratories Limited

Earnings Call Transcript – Q1 FY11

July 22, 2010

Kedar Upadhye *(Investor Relations)*

Good morning and good evening to all the participants and welcome to Dr. Reddy's earnings conference call for the first quarter ended June 30, 2010. We hope you have all had a chance to review our press release, which was issued earlier this afternoon. The results are also posted on our website. In addition, we are conducting a live webcast of this call. The transcript of this call will also be available on our website. Please note that all discussions and analysis during the call will be based on IFRS consolidated financials.

In April 2010, Securities Exchange Board of India had announced certain amendments to listing agreement with stock exchanges. One of the provisions was to allow companies like us who have already migrated to IFRS to publish only IFRS consolidated financials in place of I-GAAP consolidated financials for the purpose of clause 41 reporting compliance. We have elected this option and from this quarter onwards we have discontinued the preparation and publishing of IGAAP consolidated financials on a quarterly basis. An analysis of recent quarters' numbers however shows that difference in the profit numbers under both these financials is not significant.

To discuss the results and outlook, we have on the call today G.V. Prasad, our Chief Executive Officer, Satish Reddy, our Chief Operating Officer, and Umang Vohra, our Chief Financial Officer. Please note that today's call is copyrighted material of Dr. Reddy's and cannot be re-broadcast or attributed in press or media outlet without the company's expressed written consent. Before we proceed with the call, I would like to remind everyone that the safe harbor language contained in today's press meeting also pertains to this conference call and the web cast. I would now like to turn the call over to Umang Vohra, our Chief Financial Officer.

Umang Vohra *(Chief Financial Officer)*

Good morning, good evening, and good afternoon to everyone on the call. On behalf of the management team, I welcome all of you on the call today.

This has been a relatively challenging quarter for us. We had some challenges in few of our businesses which Satish will take you through as well as a very volatile currency environment globally. Despite most of our markets demonstrating good growth in local currency terms, we were impacted by lower rupee realization.

All the figures referred to in my section are translated at the convenience rate of $1 US to 46.41 INR. For the purpose of business highlights in Satish's section, the analysis is based on performance in respective local currencies.

The financial highlights are as follows:

- Consolidated revenues are at $363 million representing a year-on-year decline of 7%. Excluding last year's revenues from Sumatriptan the growth is at 4%. Excluding Sumatriptan and at constant forex, we see a growth at 12% in this quarter over last year.
- Revenues from our Global Generics business are at $257million for the quarter and this represents a decline of 8% versus the previous year. Excluding Sumatriptan the growth is at 9% in this segment.
- Revenues from Pharmaceutical Services and Active Ingredients segment are at $97 million for the quarter and represent a decline of 8% over last year.
- Gross profit margin for the quarter is at 53% versus 56% in the previous year. The decrease in margin is on account of a favorable mix of high margin revenues from Sumatriptan in the previous year and the impact of an adverse rupee/dollar movement. Within this, gross margins for Global Generics and Pharmaceutical Services and Active Ingredients are at 65 and 22% respectively.
- SG&A expenses excluding amortization charges for the quarter are at $112 million and represent a decline of 4% over the previous year. Same quarter last year, we had recorded one time charges towards the restructuring of workforce in Germany as well as the closure related costs of our

facility in Atlanta. Excluding such charges, SG&A has increased by 7% over the previous year. Amortization charges for the quarter at $6 million compared to $11 million in the last year. This is largely on account of a lower amortization with regard to betapharm's intangibles.

- During the quarter, the Russian rouble depreciated approximately 6% against the US dollar. Forex loss during the quarter of $5 million is largely on account of this depreciation of the Russian rouble and the impact of the translation of receivables as a result of that.
- EBITDA at $74 million for the quarter is at 20% to sales.
- The effective tax rate for the full year is working to about 15% for us this year. This decrease in the effective tax rate from last year is largely due to an increase in the weighted deduction on the research and development expenditure enabled by this year's Union budget of India.
- Profit after tax is at $45 million.

Moving on to the balance sheet,

- operating working capital increased by $33 million driven by increase in receivables largely on account of our recent launches in US and the higher sales in Russia. There have also been increases in inventories in anticipation of the new launches across our key markets.
- Capital expenditure for the quarter is at $40 million. This spend relates to our capacity expansion program at the sites in Hyderabad and Vizag.
- Our foreign currency cash flow hedge options for the next nine months stand at approximately $340 million covering a range of rupees 45 to 50 to a dollar.
- Our current net debt is at $162 million. The net debt to equity ratio is at 0.17. Our total long-term Euro loan is now at $127 million Euros.

I will now request Satish to please cover the business highlights.

Satish Reddy *(Chief Operating Officer)*

Thanks Umang.

For the quarter I am pleased to see a good sequential growth in local currency in terms of key markets.

Revenues for Global Generics are at $257 million, grew by 9% year-on-year if you exclude last year's revenues from Sumatriptan. Our branded markets continue to display a high growth momentum while in North America we experienced good sequential growth. During the quarter, we launched 32 new products and filed 26 new registrations globally.

Highlights for the key markets of Global Generics business are as follows :

Starting with **North America**, revenues for the quarter are at $85 million. Excluding the sales from Sumatriptan in the previous year, the growth is at 5%, largely led by the new product launches of tacrolimus and amlodipine-benazepril combination. We experienced relatively slow pickup in the market shares for tacrolimus which is usual for a product in the immunosuppressant category. However for tacrolimus as well as for our launch of amlodipine-benazepril, in the recent weeks, there has been a higher off take and increase in the share of new prescriptions that are generated. For the Omeprazole magnesium OTC product, we expect to add more customers as we go along. For our existing products, we continue to pursue a market share expansion strategy. Also during the quarter, we have filed five ANDAs and with this we now have 71 ANDAs pending approval at the USFDA of which 36 are Para-IVs and 12 first-to-files**.**

Moving on to **India**, revenues for the quarter are at $60 million or Rs. 278 crores which represent a 16% year-on-year growth and 6% sequential growth. The pricing is stable and the growth continues to be led by higher volumes. The secondary sales data as per ORG IMS for MAT June 2010 indicates a growth of 22% for Dr. Reddy's versus the industry growth rate of 20%. With the recent expansion and realignment of field force in our acute care division, we are confident of seeing a higher growth going forward. During this quarter, we have launched 11 new products in India. We now have received a final approval from Indian regulators to manufacture and market our third biosimilar which is darbepoetin in India. We will launch it shortly.

Moving on to **Russia** now, the revenues are at $45 million which recorded a strong year-on-year growth of 44% and sequential growth of 32%. The growth was on account of increased volumes for

our key brands of Nise, Omez, Cetrine, and Ketorol. We launched 4 new products during the quarter in Russia and we are ranked 15th as per Pharmexpert data for the two months of April and May with secondary sales growth of 33% in value and 31% in volume terms. The market growth for the same period is at 21% in value terms and 13% in volume terms. We would like you to bear in mind that this high growth was witnessed across all companies in the industry largely due to restocking of inventories by trade after the uncertainties related to reference pricing implementation got over.

Talking about **Europe generics**, revenues are at Euro 32 million. Betapharm recorded revenues of 23 million Euro which is a marginal decline of 6% resulting due to price erosions. We have optimized our SG&A in the last one year and our current SG&A run rate is only 1.5 million Euro per month which is approximately half of what it was last year. We continued to shift the manufacturing of additional products to India as an ongoing project. The benefits from SG&A optimization and increased sourcing of products from India will help us compete effectively in the new tenders.

Moving on to the highlights for the **PSAI** business, revenues were at $97 million, so it pretty much remains flat over the previous year in constant current terms. There have been no significant new launches of API in the recent quarters and the impact of volume increases are being offset by price decreases. During this quarter we have filed 3 DMFs and the cumulative filings currently stand at 378 globally. So with this I now hand over to Prasad for his closing comments.

G.V. Prasad *(Chief Executive Officer)*

Thank you Satish.

While I am pleased to notice the continuing growth in key branded markets of the Global Generics business in this quarter, performance in our US market was below our expectations. This was further compounded by the preliminary injunction in the fexofenadine-pseudoephedrine 24 hour tablet case against us. However, for the balance portion of this year, we are confident of ramp-up in the market shares of existing and newly launched products in the US. We expect between 8 to 10 launches in the US. Further, the FDA's review of our fondaparinux ANDA is active and progressing well. An early approval of this product will help us improve overall revenues and profitability.

During this quarter, we transferred dossiers and trademarks for nine currently marketed products in Brazil, to GSK for a total consideration of $4 million. We expect to receive additional consideration towards other products in the pipeline based on specific milestones. In view of the transfer of these dossiers, we have de-scaled our operations in Brazil.

As you are aware in the second week of June, the district court of New Jersey granted the preliminary injunction of Sanofi-Aventis blocking our proposed launch of the fexofenadine-pseudoephedrine 24 hour tablets. We strongly disagree with the court's decision and are taking the appropriate remedies legally available to us. Though the preliminary injunction was granted to Sanofi, the court has allowed us the opportunity to produce the results of further analysis conducted on the samples of our products. We believe we will be able to support our contention quite clearly and get the PI removed. While it will be difficult to give you an exact timeline for the next steps and the outcome, the matter is likely to get resolved by the end of this calendar year based on historical timelines.

As Satish mentioned earlier, we have received manufacturing approval in India for the launch of our third biosimilar, darbepoetin alpha, which we will launch shortly. Our biosimilar products allow us to connect both the unique dimensions of our corporate purpose, affordability and innovation. We continue to invest in development and manufacturing capability with the focus on becoming a leading integrated global player in biosimilars and providing affordability to patients globally. Our darbepoetin alpha will be the first biosimilar darbepoetin alpha in the world and also will help us consolidate our leadership in complex biosimilars. Reditux, three years after its launch in the fiscal

year 2008 remains the only biosimilar monoclonal antibody in the world and the only alternative for patients to the originator's product. Our first biosimilar product Grafeel marks its 10th year in the market in India and continues to be the market leader for the GCSF category. The next product pegylated protein is in late stage clinical trial and two other biosimilar monoclonal antibodies will be entering clinical trials in the near future. We started our biosimilar business almost a decade ago and I am happy to see the continued development of our capabilities. We now have several years of proven current GMP manufacturing experience with a history of successful audits including an approval for supply of clinical trial quantities to the European markets.

With this I would like to end and thank you all for your attention and we would now be able to start the Q&A session.

Q & A Session

Nimish Mehta Yeah thanks for taking my question. Two, three questions. One, can you let us know whether there is any impact of the Allegra recall that you had to do a couple of quarters back, in this quarter as well, so are the sales of US impacted because of that or it has kind of recovered?

Umang Vohra No it is in the process of recovering and we are hopeful that this will start increasing henceforth, but yes there was a decline after the recall and we are actually hoping that we have reached the bottom of that right now.

Nimish Mehta I see. Anything that you can tell us as to what is the level at which you have reached so far, I mean annualized sales of Allegra?

Umang Vohra We don't give that kind of a disclosure, but you could look at some of the trend data that it is coming out of the US in terms of prescriptions etc.

Nimish Mehta Okay. My next question is related to Russia growth and correct me if I heard incorrectly, it is high or because of some kind of restocking that has happened while we see uncertainties going out, so how do you look at that growth?

G. V. Prasad Yes and also there is an element of restocking, but the market is also growing at a quite significant pace about 20% plus. So there is a combination of the market growth as well as the restocking and the market growth could also be a function of the restocking.

Nimish Mehta Yeah okay. Okay fine and finally can you let us know is there any improvement in the profitability of betapharm because of the cost related measures that you have taken?

Umang Vohra Betapharm is cash accretive for us and it has been much more accretive at this level. It is profitable now, now that the cost of the SG&A has moved out. So we have almost taken out Euro 2 million of SG&A out per month, so it is accretive and largely accretive now at this level of business now

Nimish Mehta Okay, okay fine. Thank you, I will join back in the queue.

Neelkanth Mishra Yeah hi. Could you give us an update on your FY13 guidance, I mean are you still confident of the $3 billion goal by FY13, we didn't see an update on that?

G. V. Prasad We haven't given you an update on that. We have always said that we are aiming for an overall aspiration of $3 billion, we continue to do that. We see visibility close to that number, a few hundred million dollars this way or that way. So we are on track as far as that getting close to $3 billion is concerned.

Neelkanth Mishra Right and now that fondaparinux seems to be delayed and Allegra-D 24 is again pushed out to the next year, with the level of certainty in your revenues should have fallen. Is it possible to give firmer guidance for FY11?

G. V. Prasad We stand by our guidance. I think we continue to track the RoCE guidance, that is what we gave and we are on track to achieve that.

Neelkanth Mishra Okay and one last question. The problems in the US, I agree things have been below expectations, but what is it that you expect to change later in the year and where do you think the pitfalls have been and why is it that in a lot of the share gains not happening as rapidly as we thought?

G. V. Prasad Yeah. There are two parts to that question. One is related to the OTC products. The OTC product shift from one customer to another, takes a much longer period and this was a surprise to us in the sense that the retailers shift shelf space from one supplier to another over a period of time. We have to configure the packaging and replace existing supplier with a new supplier. All this takes a much longer period than we anticipated. That is a three month delay. So having said that, I think also we have not been aggressive on the pricing front. We have tried to maintain pricing and maintain profitability and gain incremental share. So these two factors somehow have acted against us in terms of getting a rapid market share gain on the OTC product. So that explains that. On the generic side, I don't see it as a major issue or anything, any specific issue. In our particular case, we are recovering from recall and some supply deficits that we had last year due to the slowdown in manufacturing. All of that put together I think is behind us now. We are targeting significant market share. We believe that in certain key products, we will be the market leader and you will see improved share in the next quarter. We have already seen the uptick of the share gains as we have improved our supply, re-established our credibility post recall and all of those. So I remain bullish on the US market for the prescription generic products and the OTC should also catch up now.

Neelkanth Mishra Thanks, I will join in the queue.

Rahul Sharma There has been degrowth in the PSAI segment except for the category 'other,' what can we attribute to that and do you see this as a continuing phenomena going ahead?

G. V. Prasad Let me answer that question in two parts. The API business is a declining business always if you do not launch new products. Prices compress over time, it is a commodity market and that loss of revenue through price compression is made up by launch of new products. So the growth is a function of your ability to launch new products on a sustained basis. We have a very extensive DMF pipeline; we have good customers all over. So we do not believe that the price erosion cannot be countered, we do believe it can be countered. This particular quarter I do not see that as a trend going forward. But having said that we have already a large base now, $400 million plus base. Hence, growth would not be huge; it will probably be high single-digit, low double-digit.

Rahul Sharma And what can be attributed to the degrowth in Europe global generic?

G. V. Prasad There is a price compression in Germany but that is compared to the same period last year, but if you see the last few quarters it is relatively stabilized, there is no degrowth.

Rahul Sharma And the GSK milestone payment which you received is in the June to September quarter, right?

Umang Vohra No, we have received the milestone as of 30th of June. We will be accounting it and amortizing it over the next three years. So there is a very, very small or an insignificant share of that is in the results in this quarter.

Rahul Sharma And it will come over the next three years?

G. V. Prasad It has come. Money has come. The cash flow is there. Just accounting treatment we will recognize it over the next three years.

Rahul Sharma And not in a single year?

G. V. Prasad Not in a single year. The money is already in our account.

Rahul Sharma Okay. Thank you.

Ranjit Kapadia Hi, sir. My question relates to forex exposure, how much is the exposure if you can repeat and second question is related to fondaparinux. When are you confident that the product will be launched?

Umang Vohra On forex our total exposure on USD is about $650 million. That is our net exposure. And our foreign currency hedges covering that exposure stand at approximately $340 million. It is $650 million for the full year, so for nine months you will have to proportionately reduce it and $340 million is the hedges we have for nine months.

Ranjit Kapadia And sir, fondaparinux if you can throw some light about the launch?

G. V. Prasad As far as we are concerned we have responded to all queries. The file is being reviewed by the FDA. So it is really not in our hands, it is in the agency's hands and whenever they give approval we are ready to launch.

Ranjit Kapadia Thank you very much.

Bino Pathiparampil Hi, just a follow-up on the US market, you just mentioned there will be about 8 to 10 launches that will be during the next three quarters of the year?

Umang Vohra That is correct, Bino.

Bino Pathiparampil Okay. And Umang, when you said you believe that Allegra, after that manufacturing problem has bottomed, so does it mean that till now we have been seeing decreasing market share among your distributors?

G. V. Prasad So it went through a downward cycle. We lost market share. We are slowly regaining it. We have not reached the original levels of share yet.

Bino Pathiparampil So, my question is like over last quarters, sequentially, last quarter's market share for Fexo, this quarter is better?

Umang Vohra It is flat, so it is stable and we are seeing it going up, Bino.

Bino Pathiparampil Right. So you think Fexo itself can reach that earlier stage or will you need other products to….

Umang Vohra It would not recover to that level, Bino. Probably lower than that but we're definitely hoping and thinking that will be much higher than where we are right now.

Bino Pathiparampil Okay. Right. And just you also mentioned that there were some concerns of Russia price control going away, etc., so could you give an update on that?

Umang Vohra So the reference pricing in Russia has come in, Bino. And everybody is almost got new prices in that market from 1st of April. And for us that the result was not very significant in terms of the new prices that have come in.

So there is no real threat of price control at least in the balance half of the year.

Bino Pathiparampil Right, but who have been impacted, was it because of your product portfolio that you escaped it or?

Umang Vohra We have definitely lower share of the essential drugs as a proportion of our product portfolio and therefore we were not impacted that much and our continuing efforts to increase our OTC share in our portfolio is ongoing.

Bino Pathiparampil Okay, great. I will join back in the queue. Thank you.

Ravi Agarwal Hi, thanks. The first question was on this licensing income from GSK. If I recollect you were mentioning that the other products also which you are expecting to move to getting some sort of a milestone. But you also mentioned that you got a lump of milestone which you will possibly amortize over the next three years. So does this current run rate of $4-4.5 million actually be a quarterly run rate for you, or is it something which you can actually hope to increase over the next couple of quarters?

Umang Vohra So what we have transferred to GSK for Brazil is a set of current marketed products which are already selling under the Dr. Reddy's name, right. For those products we have got $4 million now. There are certain products which are in advanced stages of either have been filed with the regulator or are going to be filed now with the regulator, for which we will get an additional $9 million. And that $9 million maybe spread out depending on when those products are filed, hopefully, in the next 12 months to 15 months most of these products would be filed. From the time we get each of these milestones of this 9 million they will be amortized over the term of this agreement which is roughly three years.

Ravi Agarwal If I understand this $9 million is essentially for Brazil, or it is also for your other markets?

Umang Vohra No, this is only Brazil.

G. V. Prasad This is a one-time transaction. It is a transfer of our Brazilian business to them in a particular way. So it is a one-time revenue, it is not going to come from other dossiers.

Ravi Agarwal Okay. And this $4 million we have been mentioning that we book it as a part of a revenue so would it be showing in ROW here or?

Kedar Upadhye In Global Generics, we will show it as a separate segment, Ravi.

Ravi Agarwal But this $4 million would be recorded as a part of our ROW sales here….

Kedar Upadhye As of now what we said is in this quarter there is no recognition trigger for this $4 million. It will get spread over subsequent three years from 1st July onwards.

Ravi Agarwal Okay. The second question actually more a generic question, on your OTC business in the US, if we exclude Omeprazole OTC, we still have a roughly around $25 million to $30 million of sales coming from our OTC business. I am just tying with what is happening with J&J today in the US, do you see any impact of that to this portfolio outside Omeprazole OTC which is a of course not there, but in the other portfolio?

G. V. Prasad We do not have any overlap products with J&J, so we do not benefit from the troubles of J&J.

Ravi Agarwal Okay. Just two very housekeeping questions. One, Umang was mentioning that the tax rate for the full year would be 15%, is that correct?

Umang Vohra That is right.

Ravi Agarwal And I just missed the SG&A cost on Betapharm if I could get that it will be very great.

Umang Vohra It was about Rs. 48 crores last year, which was the one-time charge we took in our SG&A. Per month we are at about a Euro 1.5 million in the current month versus almost about Euro 4 million in the previous year.

Ravi Agarwal Okay. Thank you so much.

Nimish Mehta Yes, thanks again for taking my questions. Just wanted to know one thing, as far as Allegra "at-risk" launch of a generic is concerned, there was some court decision on one patent 872, about a month ago, anything to worry about in terms of this "at-risk" launch?

G. V. Prasad No, the relevant patent for us is 906. And we believe we do not infringe that.

Nimesh Mehta Okay. Fine. The next is about Exelon launch. I mean I understand it is scheduled in FY12, but given that there are two generic players, is there any possibility that your launch will get triggered earlier?

Umang Vohra We are not commenting on that right now. I think we are still holding on to the fact that it may be an FY12 launch.

Nimesh Mehta I see. And lastly on Omeprazole OTC, how many new customers you have added, I mean if I am not wrong, it was about two customers last quarter?

Umang Vohra We are now serving four.

Nimesh Mehta Okay, fine, thank you very much.

Surojit Pal Hi, I have just one question is that going by the recent development in Allegra D12 that Sanofi has applied to make it an OTC product. Do you think that it could have impact in the sales of D24 or going forward their application could be also extended for Allegra D24 and in that case if you get approval the same fate it could receive as you are seeing problem in omeprazole in terms of longer period to penetrate in the markets?

G. V. Prasad I do not think it is a big problem as such. As I mentioned to you it is a combination of our pricing approach as well as the time it takes to shift shelf space. That is the nature of the OTC business. But as Allegra goes OTC we will be in the OTC.

Surojit Pal But it will take longer time in terms of fetching revenues vis-à-vis if had it been a…

G. V. Prasad It is a matter of couple of months. It will not take huge amount of time.

Surojit Pal Okay. Thank you.

Manoj Kumar Taking the question forward in the sense like what percentage of our revenue is being affected by this price in a regulatory in the Russian market? What percentage of your portfolio?

Umang Vohra About 40% to 50% of our portfolio gets affected by that.

Manoj Kumar And the second question is like in terms of Tacrolimus launch in the US, could you provide some color in terms of like what percentage of market share we have been able to garner and how many competitors are there in the market just now?

Umang Vohra There is only one more competitor who was there up till the end of this quarter which was Sandoz. There is one more who is apparently got approval in early July. And that is only for one strength. And we are currently seeing our prescriptions of the generic prescriptions to be close to 40%, so we hold 40% of the generic prescriptions on Tacrolimus.

Manoj Kumar Okay. That is all from my side.

Ritesh Shah Hi. Good afternoon. I just want to check on; I thought you mentioned about 8 to 10 launches in the US in the current year. Is it possible to give us some color on the kind of launches which we are talking about like the way you probably did in the matrix which you presented in the analyst meet that you did last year in terms of how many could be limited competition or exclusivity kind of launches to be possible in this number that you are looking at?

Umang Vohra We will be updating some of those slides on our analyst deck. I am not sure we will give a full color of the launches but I can say that at least three or four of those 8 to 10 we believe are very promising launches where we will have limited competition and possibly even less than maybe three or four players on those products.

Ritesh Shah And this would be your largely a second half kind of a launch schedule?

Umang Vohra That is right.

Ritesh Shah Okay. Umang on this other income which is there, substantially higher number when compared to previous quarter, what is the nature of this other income which is there?

Umang Vohra What numbers are you looking at?

Ritesh Shah Rs. 18.6 Crores which is there, $4 million.

Umang Vohra Right. And in the previous you are looking at sequential or are you looking at…?

Ritesh Shah YoY numbers.

Umang Vohra So I think in the previous year, in this category, we had a provision for Olanzapine and that provision for Olanzapine is not there for the legal cost. As a result of that we have a gain of Rs. 18 Crores and last year we had about I think 5 Crores provision on this account. And that charge is there in the other income in the previous year.

Ritesh Shah So this is kind of sustainable run rate that you are looking at Rs. 18 Crores to 19 Crores for the other income….. in operating nature.

Umang Vohra We should be tracking at that level, yeah.

Ritesh Shah Okay. And lastly, on the biotech business, on this biosimilar business, what is the roadmap for the non-India part in terms of going outside of India with the products that you have already launched?

G. V. Prasad We are incrementally going to markets which registered the product based on the clinical development we have done for India and a little more than that. But for the larger markets, the regulated markets, it is going to be a few more years before we see revenue.

Ritesh Shah But how big an opportunity do you see in the non-regulated markets for filgrastim, as well as for Reditux?

G. V. Prasad It is quite significant, but not in the scale of the biosimilar in the regulated market. It will be incremental to India revenues maybe twice or thrice of India revenues overall.

Ritesh Shah Okay. Thanks.

Sameer Baisiwala Hi, good evening, everyone. Just on tacro, is there any thoughts on how the competition could shape up for the balance part of this year?

G. V. Prasad I think it is a function of additional approvals. As things stand I think the 5 mg dose is what one of the competitors got approval on that we believe is not a significant share of the market. And also the genericization is shifting from new prescriptions and generally this new prescriptions start at the lower dosage and then ramp up. As of now it does not look very intense but we cannot predict who else will get approved.

Sameer Baisiwala Okay. And just on the Russian market is there any clarity how the reference pricing itself could move beyond fiscal 2011 that is going forward? Is there any clarity on that from the side of the government or the regulation?

G. V. Prasad We do not have any visibility at this time on that.

Sameer Baisiwala Okay. And just final point, Prasad you mentioned about the approval that you have for the supply of chemical quantities for the European market for biosimilars.

G. V. Prasad One biosimilar.

Sameer Baisiwala So how would you take this forward?

G. V. Prasad This is like a supply to another company who is doing clinical trials for expanded indications. It is not as a biosimilar but as a different usage with the

same active. It would be a new drug application effectively. We have not yet partnered with anybody for the biosimilars for the regulated markets. We started building our own team and we will take a view in the next 18 months or so about how our approach to these markets will be for the initial two or three products.

Sameer Baisiwala Okay. And which product is it?

G. V. Prasad The one to Germany?

Sameer Baisiwala The one approval that you have for the clinical quantities?

G. V. Prasad We are not telling the name of the product.

Sameer Baisiwala And just a final question on the US base business, is there anything that you are seeing on the pricing front, it is a very general question?

G. V. Prasad Nothing unusual, Sameer. Business as usual, it is a competitive market. So if there are multiple players the prices will be very low. Nothing unusual. The same story.

Sameer Baisiwala Okay. Thank you very much.

Vivek Kumar Good afternoon to everyone. Most of the questions been answered but just a last one. On the betapharm business I think given the scenario when most of the tender based penetration is going to happen over there. The focus will be more on the volumes as well as the bottom-line, is this what you are emphasizing on right now, if this is the case then probably where do you see the kind of sales guidance that you put across for FY11 or maybe FY12?

G. V. Prasad We have not given you any sales guidance, so it does not impact that. But talking about the German market, we have two approaches to it. One is to be effectively competing in the tenders through a vertically integrated portfolio. The other one is to identify products of limited competition which are amenable to some kind of promotion. That is a very early effort. That is one of the strategies we are pursuing.

Vivek Kumar Great, thanks a lot.

Karthik Mehta Hi, sir, can you throw some light on your perception of the competitive profile that may emerge in fondaparinux given that our product seems to be delayed from the FDA side what is your sense about ….

G. V. Prasad There is no other file as of now. There is a Drug Master File, somebody called Apicore has filed, but we believe that in very early stages, there is no other ANDA at this time.

Karthik Mehta But Apicore seems to have also stated that they have tied up with some larger generic guy for filing an ANDA. Would you think that your expected window of opportunity would be relatively lower, what is your sense on this sir?

G. V. Prasad We know Apicore is a small company. It has just filed DMF. We have not seen ANDA yet.

Umang Vohra To the extent that they file and we are in the market, at the end, obviously, the market dynamics will play out but I think the fact that it took us a fair amount of time to get our own file approved gives us a good starting point for the market.

Karthik Mehta Because to my knowledge if I am not wrong here then they seem to say that they have been working on it from 2007, I do not know if they are actually still a year or two behind us, that is why I would have wanted to know your sense on that.

G. V. Prasad We do not know it.

Karthik Mehta Okay. Thanks.

Arvind Bothra Yes, would you please like to throw some light on your gross margins, if I am looking correctly, for the Global Generics side, your gross margins improved from 64% to 65% on a YoY basis and this is despite some depreciation in Rupee as well as lack of Sumatriptan exclusivity, any particular reason?

Umang Vohra So it is largely on account of product mix.

Arvind Bothra Okay. But is it the branded market which is driving it?

Umang Vohra It is the branded markets as well as our launches in the US.

Arvind Bothra And for the PSAI segment particularly the gross margins declined steeply from 31% to 22%; was it because of lower scale?

Umang Vohra That is right. It was because of lower scale and also we have reprocessed some inventory. It is because of that.

Arvind Bothra Okay. So what could be the kind of gross margin we can expect in the PSAI segment on a normalized basis?

Umang Vohra I think we would go back to our regular level of about 30%.

Arvind Bothra Okay. And is this backed by improved visibility on the PSAI order flow?

Umang Vohra We are hoping to see better quarters than what we have seen in PSAI right now. On the API portion which is a bigger portion of the business we are hoping to see better quarters.

Arvind Bothra And on the customs synthesis part, which remains a small business?

Umang Vohra Yeah that I think we have more or less will be roughly the same level or maybe a million or two lower or higher depending on….

Arvind Bothra Okay. One more question on your Capex side. You have done considerable investment of Rs. 2 billion which you said was for expansion. What would be the capex for full year, would we take this run rate to continue for the next three quarters?

Umang Vohra We are looking at about approximately $150 million of capex for the full year.

Arvind Bothra Okay. So much of it is front ended in this quarter?

Umang Vohra $40 million is what we have spent so far.

Arvind Bothra Okay. Sure, sure. Thanks so much.

Chirag Dagli Good evening, sir. Just a quick question on fondaparinux, given that this is going to be a partnered product, how different will the profitability in fondaparinux pan out versus your some of the other limited competition products?

Umang Vohra We are not giving margins by product but we believe that even if post partnering this will be a very high good margin product for us.

Chirag Dagli So will the margin profile be similar to some of the other limited competition products?

Umang Vohra Marginally lower I would say, but it could be similar.

Chirag Dagli Okay. And of the three or four limited competition products that you said you will launch during the rest of this year, you mentioned that second half you see substantial – Is fondaparinux is one of them?

Umang Vohra I cannot give you exact what is one or not but yes, I mean since Fonda, if we get an approval would definitely be one of them. And we are hoping for an approval by the second half only.

Chirag Dagli Thank you so much.

Kedar Upadhye Melissa, can we take last two questions, please?

Chirag Talati Hi, thanks for taking my question. Just one question on your PSAI segment for Europe. Just wanted to confirm what is the kind of pricing pressure that you are seeing there particularly now that governments throughout Europe have implemented price cuts for generic as well as that having a ripple down effect on your pricing, how do you see that going forward for FY11?

Umang Vohra We have not seen a decrease linked specifically to let us say Spain or Italy where the most recent price cuts have happened. But it is a commodity business. We have seen this kind of price erosions even in years earlier except that in the earlier years we had products going off patented and so there were significant launches as well. So as the patents go off and more products start getting launched across US and Europe we will begin to probably see the decline getting arrested.

Chirag Talati Any signs of further pricing cuts in Germany because they have implemented pricing cuts for innovators, could that have an impact on overall German market for new product launches from next year?

G. V. Prasad The German market is working on tenders largely for the business. That depends on the dynamics of the competitiveness for each product. It is not about reference….

Chirag Talati Sure, thank you.

Kedar Upadhye Thank you, all for joining Dr. Reddy's senior management for the earnings call. In case of any further clarifications please feel free to get in touch with the Investor Relations group. Thank you and good night.