Dr. Reddy's Laboratories Limited
Q1 FY'17 Earnings Conference Call

July 26, 2016

Kedar Upadhye:

A Very Good Morning and Good Evening to all of you. Thank you for joining us today for Dr. Reddy's Earnings Call for the First Quarter of Fiscal 2017. Earlier during the day, we have released our results and the same are also posted on our website. We are conducting a live webcast of this call and a transcript shall be available on our website soon.

Just a reminder, the discussion and analysis in this call will be based on IFRS consolidated financial statements.

To discuss the business performance and outlook, we have the leadership team of Dr. Reddy's comprising Saumen Chakraborty - our Chief Financial Officer; Abhijit Mukherjee - our Chief Operating Officer and the Investor Relations Team.

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Before we proceed with the call, I would like to remind everyone about the Safe Harbor.

This discussion will contain certain forward-looking statements which are based on management's current beliefs and expectations and involve a number of known and unknown risks and uncertainties that could cause our future results, performance or achievements to differ significantly from what is expressed or implied by such forward-looking statements. For more detailed information on the risks and uncertainties associated with the company's business activities, please see the company's Annual Report filing Form 20-F with the US SEC for the year-ended March 31, 2016 and the Quarterly Financial Statements filed in Form 6-K with US SEC for the quarters ended June 30, 2015, September 30, 2015 and December 31, 2015 and our other filings with the US SEC.

Now, I would like to turn the call over to Saumen Chakraborty, our CFO.

Saumen Chakraborty:

Thank you, Kedar. Greetings to everyone. Let me begin with Key Financial Highlights. For this section, all the amounts are translated to US dollar at the convenience translation rate of Rs.67.51, which is the rate as of 30th June, 2016.

Consolidated revenues for the quarter are Rs.3,235 crores or $479 million and declined by 14% year-on-year. Revenues from our Global Generics segment are $395 million and PSAI segment are $70 million. Overall, the decline in revenues is largely impacted by lower revenues from North America Generics and API business as well as loss of sales from Venezuela. North America Generic business witnessed increased competitive intensity in some of the key molecules, primarily Valganciclovir and Azacitidine. Further, we also witnessed pricing pressure and moderation in the volumes uptake. As discussed earlier, PSAI performance continues to be impacted by delay in dispatches on account of the ongoing quality improvement initiatives.

Consolidated gross profit margin for the quarter is 56.2%, recording year-on-year decline of around 490 bps. As discussed earlier, increased competitive intensity for our key assets in Generic business impacted the decline. Gross margins for Global Generics and PSAI were at 61.3% and 24.1% respectively.

SG&A spend, including amortization, for the quarter is $182 million, and increased by 12% year-on-year. As guided in our previous call, we continue to incur expense towards the ongoing quality improvement initiatives and also sizable outlay towards launch-related activities by our Proprietary Products business with respect to Zembrace and Sernivo. Normalized for these charges and also the decreased spent base from Venezuela operations, the balance net increase in SG&A is largely attributable to normal salary increments and headcount increase.

R&D expenses for the quarter are at $71 million, representing 14.8% to revenues. This spend is in line with the ongoing set of developmental activities, as planned. During the coming quarters we will initiate further development of the recently in-licensed IPR&D assets from Xenoport and Eisai.

On Venezuela, we have not received any repatriations during the quarter, to date, and hence we continue to measure the financial statements of the Venezuelan Operations at the current DICOM rate.

EBITDA for the quarter stands at $59 million, which is 12.3% of the revenues. Effective tax rate for the quarter is at 26%. However, we expect the annual effective tax rate to be in the range of 21% to 22%.

Key Balance Sheet Highlights are as follows: Our operating working capital further decreased by $58 million during the quarter. Capital expenditure for the quarter was at $48 million. During the quarter, we concluded our share buyback program and thereafter ended the quarter with a net debt-to-equity ratio of 0.11.

Foreign currency cash flow hedges for the next 9-months in the form of derivatives and loans for US dollar are approximately $228 million, largely hedged around the range of Rs.66.0 to Rs.71.1 to the dollar. In addition, we

have balance sheet hedges of $191 million. We also have foreign currency cash flow hedges of RUB 825 million at the rate of Rs.0.99 to the RUB and EUR 4.5 million, largely hedged around Rs.75.00 to Rs.82.05 to the Euro, maturing over next 9-months.

Effective this quarter, we are presenting the consolidated financial information under IFRS and Ind AS and standalone financial information under Ind AS. You will notice that the PBT under IFRS is marginally lowered by Rs.35 crores relative to that presented under Ind AS. This is primarily arising from higher depreciation and amortization expense under IFRS resulting from a differential fair value base and also the treatment of the gain arising on fair valuation of the mutual fund investments.

Before I conclude, as some of you are already aware, Kedar Upadhye, after his 12-year stint with us has decided to pursue his career outside Dr. Reddy's. So following this, Saunak Savla -- Member of the Investor Relations team will now lead the IR function.

With this, I now request Abhijit to take us through the Key Business Highlights.

Abhijit Mukherjee:

Thank you, Saumen. Greetings to Everybody and welcome on this Earnings Conference Call.

Overall, the performance of the quarter has been quite muted. It reflects the adverse impact of competitive dynamics in the US business, impact of ongoing remediation activities on the API business and no contribution from Venezuela in the current quarter. Overall this has been a challenging quarter and necessary steps are being taken to get back the growth momentum. I will dwell upon each of these businesses in details going ahead. We continue to focus on key priority areas of quality improvement initiatives, execution of launches and strengthening of the pipeline.

Now, let me take you through some of the Business Highlights for each of our key markets. Please note that in the section, all references to numbers are in respective local currencies.

Our North America revenues are $237 million and declined 20% year-on-year. This decline captures the full quarter impact of competitive challenges in some of our key assets. Further, pricing pressure as well as moderation in volume offtake was noticed across Rx and OTC products. Against this tide, we consolidated our market share position of Esomeprazole. Recently, you would have noticed our approval and launch of Omeprazole and Sodium Bicarbonate Capsules. We hope to see further improvement in approval rates and launches in this year.

On the emerging markets front, there has been a fair bit of stabilization in the macro situation. Crude is more stable and so is the impact on major EM currencies. Russia business in Rouble terms grew by 23% year-on-year and was stable sequentially. Teams continue their efforts in terms of optimizing the productivity and meaningful additions to the portfolio. As per IMS YTD 2016, our volumes have grown by 6.5% versus the market growth of 0.5%. Consequent to the Reditux approval in Russia, we are working towards pricing approvals and preparation for tender participation. As explained earlier, we did not have any revenues in Venezuela. We will continue to actively engage with the Venezuelan government to provide affordable medicines to fulfill the needs of the people of Venezuela, but with an assurance on payments.

India business revenues are Rs.522 crores and grew 10% year-on-year. This was primarily due to the prevalent confusion in the market consequent to frequent NPPA pricing notifications that were experienced in this quarter. As per IMS MQT June 2016, we grew by 11.6% versus market growth of 8.8%. Team continues to focus on increasing the productivity and augmenting the portfolio.

PSAI business posted revenues of $71 million and declined 21% year-on-year. This decline is primarily attributable to the delayed dispatches on account of ongoing remediation activities coupled with some amount of moderation in the offtake by key customers.

On the Proprietary Products side, we have launched Zembrace and Sernivo. These brands are gradually getting the traction.

On the ongoing remediation activities, we believe most of the commitments made by us to the agency have been duly addressed. In this quarter, we wish to meet the agency to discuss the progress and request for a re-inspection.

With this, I open the floor for Q&A.

Neha Manpuria: Is it correct that all of the remediation cost is pretty much done in this quarter as you are close to completion of the remediation and what was that amount?

Saumen Chakraborty: So it is pretty much done. So far, we would have spend altogether around $36 million and I think it could be a couple of million more in future.

Neha Manpuria: Secondly, you also mentioned launch related activity for the Proprietary portfolio, the two products that you have launched. Will this be lumpy and therefore a lot of it was in the first quarter or is this recurring in nature, I understand that some of it would be recurring, but if you could give us a break up, that would be helpful?

Saumen Chakraborty: Yes, we have Anil Namboodiripad from Proprietary Products business in the call. I will ask him to respond to this question.

Anil Namboodiripad: As with any new launches with Proprietary Products in the US, there are some upfront costs that are associated with the launch. Most of the costs are associated with market conditioning as well as building awareness, trial and usage of the product. So, we have an upfront cost associated with the launch, but going forward once we have established the awareness trial and inculcated usage, then the costs are going to be significantly lower in coming years.

Neha Manpuria: So it is fair to believe that this amount will therefore continue for a few more years then, the one related to Proprietary Products?

Anil Namboodiripad: Part of it will continue for some more years, yes.

Anubhav Agarwal: One question on the US sales. Can you explain your comment on lower volume offtake in the US this quarter - is this particularly referring to the Oral Solids or Injectable portfolio?

Abhijit Mukherjee: So when assets see competitive challenge, there are two ways one deals with it. Either you match the competitive price and keep the account or you give up the account, right. So either way, you have either price erosion or volume erosion. So the total financial difference what you see is an outcome of both. But primarily, it is due to the competitive challenges.

Anubhav Agarwal: Just a clarity on the US sales this quarter. Is there any impact of self-stock adjustment for sales booked in previous quarter, and impact of higher price erosion on those sales which is flowing through fully in this quarter?

Saumen Chakraborty: There is no one-time big impact.

Anubhav Agarwal: So you mean that like $237 million sales, let us say if there is no more approval, largely the subsequent quarter sales are going to be around, this is more like becomes a base number for us?

Saumen Chakraborty: Yes, of course, with the new product launch, it is going to go up from here, That is what we can hope.

Abhijit Mukherjee: There is some supply-related adverse adjustment, but not very big one. The other issue I would - since you asked the question, we have been working with McNeil when they had their problem for last few years and there have been some contract work which we had been doing for the last few years. So that contract is getting to an end. It is tapering off. First quarter we are still there and it is going to virtually tapering off from this quarter. The bottom line impact give or take, will be in the range of about $25 million per year annualized. So just to put that on record, yes. Base business broadly, you can take this, give or take a little bit here or there.

Anubhav Agarwal: When you mentioned about this contract, you are mentioning about the Shreveport work that you do include as part US sales?

Abhijit Mukherjee: Yes.

Anubhav Agarwal: But, Shreveport sales for us were almost like $50 million. So are you saying that we will have no sales from this facility?

Abhijit Mukherjee: We have several own products from Shreveport and those will be pretty much intact. But there was a contract with McNeil for the last few years. So that is getting to an end.

Anubhav Agarwal: Just a sub-question based on that, we had higher market share in Nexium. Would this quarter would have captured almost the good part of the Nexium or this was only partly captured and we are going to see still some benefit in Nexium in subsequent quarters?

Abhijit Mukherjee: The current market share is 15%. There is at least I think still an effort for a fair market share, a little bit more. Whether we will succeed or not? We do not know, but active discussions are on. But otherwise based on 15%, we are pretty much close to it.

Saumen Chakraborty: No, he is asking, the whole quarter was reflective of that or it was part?

Abhijit Mukherjee: More or less.

Nimesh Mehta: First question is related to the foreign exchange loss that you have booked because of Venezuela translation losses of this quarter. So if we adjust for that losses in the other expenses line item, we see that other expenses have reduced drastically. Is that a proper observation or I am missing something here, and if yes, then what is the reason?

Saumen Chakraborty: The DICOM rate which was 272 in the last quarter end has become 630 during this quarter. So the corresponding impact of that is around Rs.7.5 crores. So after the provision that has been taken in Q4, we had roughly around Rs.15 crores in our Venezuela subsidiary. So out of which Rs.7.5 crores is now done, so balance, Rs.7.5 crores will be there.

Nimesh Mehta: I am referring to one of your notes which mentioned about Rs.300 plus crores of impact because of translation losses due to Venezuela, which may be one time?

Saunak Savla: Basically, if you are looking sequentially, then last quarter Q4 FY'16 we had this Venezuela related adjustment also in the FOREX line. So that was a quantum amount of around Rs.400 plus crores. On similar lines, right now it is around Rs.7.5-8 crores.

Nimesh Mehta: Which is not Rs. 300 plus crores because that is what I read in the notes to account that you mentioned, Rs. 348 or Rs. 384 crores you know for this quarter is what I saw.

Saunak Savla: So that would be on a standalone basis. But when we look at the consolidated financial statements, the Q4 FY'16 included around Rs.430 crores of loss which on similar lines is around Rs. 7.5-8 crores right now.

Nimesh Mehta: The other question is related to our Shreveport facility. If you can let us know what is the status of this facility -- was it in OAI status or what is that that if you can confirm or validate that?

Abhijit Mukherjee: No, there were a lot of questions in between. So we reached out to the inspector. She has confirmed in writing that it is VAI that she had exactly communicated at the end of the audit. So I do not think there is a concern at least based on the way we have received the mail from the inspector.

Manoj Garg: I have a couple of questions: I would like to start on North American pricing. You cite pricing pressure as the key source of weakness, some of your competitors that have already announced in the US namely Teva and Sandoz have pointed to about mid single-digit pricing erosion during the last quarter which is actually a moderation from previous quarters. So one, can you quantify your pricing pressure within your portfolio, and I would imagine that this is largely being exaggerated by the inability to launch new price offsetting products, but if you could quantify the price erosion?

Abhijit Mukherjee: So the erosion in pricing will be different from company-to-company, quarter-to-quarter depending on what one sees competitive ingress into the market. So in this specific quarter, the full impact of Valcyte going generic was the major impact and also Vidaza saw some impact, Dacogen was a little earlier but since there is some share consolidation as well. So quite a few of our important assets have seen the erosion in this quarter. Specifically in this quarter on the base business, it is in double digit for us. But having said that, it will vary from company-to-company, quarter-to-quarter.

Manoj Garg: So in this, within the 16% decline in the US, can you break that down in price versus volume?

Abhijit Mukherjee: I just was explaining that when you see competitive pressure, you see in most of your accounts. So you retain some, you give up some. The ones you give up is the volume reduction, ones you retain is the price erosion. So you should see overall the impact and very large part of the quarter-on-quarter price decline is due to the North American reduction and the rest is emerging markets and India, NLEM so on and so forth. But probably about 70%, 75% of the difference is from North American price-volume erosion.

Manoj Garg: Then on remediation, you said, so your remediation efforts or the cost associated with the remediation effort should start to decline from here on, I think you just alluded to that you received some notice of VAI. Can you just expand on that in terms of the timing of that notice and what do you expect in terms of FDA interactions or FDA inspections in the near-term here?

Abhijit Mukherjee: So let me clarify, the question asked previously was regarding a specific site and nothing to do with the three impacted sites, so that was a independent question on the VAI which I answered, that was about Shreveport. Regarding remediation, Saumen mentioned, between $35 million to $40 million is the total expense. It has more or less tapered off this quarter and because we have completed most of the commitments, some of the long-term commitments would be continuing, that would be internal. So for all practical purposes that amount which I said between the last three quarters have played out.

Manoj Garg: On the Teva, Allergan Generics portfolio that you acquired, I think seven are pending ANDAs and one is approved. Can you provide any color here as to when we can start expecting some revenue contribution from the seven pending ANDAs, how far along are they in the review process?

Abhijit Mukherjee: So even the one approved is settled, so it is not going into launch immediately, but on overall basis from next financial year onwards, we are hopeful of seeing few approvals. Of the eight assets, two are very meaningful and the rest are okay about five Oral Solids, one Topical, one Drug Device and another a film type of a product.

Chirag Talati: When do you expect the Teva deal to complete? Post completion, should we expect an increase in amortization charge?

Saumen Chakraborty: So it may get closed in next couple of weeks' subject to the FTC approval, in all probability it may get closed in next couple of weeks. Now, this will be in-process, so amortization will only happen once the revenue starts coming in.

Chirag Talati: Secondly, on the $25 million McNeil contract that you talked about, so were any revenues from McNeil contract booked in this quarter, and when does it exactly expire?

Abhijit Mukherjee: Yes, we booked something in this quarter, but it more or less starts tapering off from now in the next two quarters, small part of it will continue. First quarter was almost let us say 70% of a full run rate which was booked and then here onwards it starts depleting.

Sameer Baisiwala: Abhijit, your comments are little confusing to me, when you say that the quarter captures full impact of the erosion in the key assets and I say that because to the best of my knowledge, I think Vidaza competitive thing happened only by the middle of May, so it maybe just six weeks impact. Second, Sumatriptan Autoinjector would actually happen in July. So that should be the new hit that you would see in the current quarter. So maybe you have not seen the worst of the hits, and at the same time when you talk of the benefits of Generic Nexium and you said that the quarter captures the full quarter impact of 15% market share, again the IMS data says that you practically had negligible market share until middle of May and it is only then that you ramped it up to double-digits. So, your comment seems to be quite incongruous from a timing perspective?

Abhijit Mukherjee: So, let me deal with each one of those. Yes, when we are saying full quarter for couple of assets which earlier played out, some of it is - part of it, yes, especially Imitrex still to come and we have seen some of it. So to that extent, you are right, some of it has played out, some more will happen. Although this month sale seemed to be a little higher than our expectations. So, yes, my comment was more general. Some overflow into the subsequent quarter will happen, to that extent i agree to what you are saying. The second point which you mentioned on Esomeprazole, market share and revenues are not fully limited. When you get in, you tend to lowered a little bit, that's how the

customers take. Yes, it could be a little higher, but I would not be able to exactly give you absolute, breakup of every million dollar, but there would not be too much of upside on that actually.

Sameer Baisiwala: Abhijit, the second question here is that you have loaded up the entire erosion in the US to these two products saying a competitive risk, but if I see sequentially, your US revenues are down roughly $50 million. If I annualize it, it is about $200 million. If I am not wrong, then both these assets, Valcyte and Vidaza, full year sales for you I think is roughly about give or take $100 million each. So, in effect implying is that both these products have gone zero or the story is actually a lot beyond these two?

Abhijit Mukherjee: The story is not a lot beyond these two. Valcyte is a big hit. It used to be more like $120 million down to say $40 million. But if you exactly add asset-per-asset, you will probably get some part of it. There would be in general always some competitive pressure coming in the base businesses. We keep also gaining a few which keep on nullifying some of these. It is possible that there are a few additional hits this quarter, which may or may not play out to the fullest extent in the subsequent quarters. So beyond this I would not be able to give you. This market is little dynamic. So you take the big assets, those are irreversible. I agree with you, Imitrex will probably come into a certain extent. Injectables, it happens a little slowly, because the GPOs are contracted out for a longer period especially for Vidaza and things of that sort. Hence it will happen, but not happen the way it happens in Oral Solids. So between these you will have to work your figures out.

Sameer Baisiwala: For the two R&D Phase-3 trials that you plan to start for XenoPort and Eisai, what do you think is going to be on a 12-month basis cash burn to do these two trials?

Saumen Chakraborty: Very early to make a complete estimate, but it could be anywhere between say $20 million to $25 million for this year combined.

Sameer Baisiwala: It looks like your quarter your EBITDA has almost halved and your net profit has almost got decimated. Really speaking here, it is the negative operating leverage which is in play, which is that you have lost sales, but your cost remains at the same level. So, just a comment that do you see your Rs. 32 billion sales going up back to Rs. 38 billion and you restore the net profits or b) do you think you have the flexibility in a shorter of time to take your costs down so that you get back to Rs. 400, 500 crores of profit levels?

Abhijit Mukherjee: Efforts would be on both sides, but in a company where it is largely innovation-based business model - to drastically cut anything would not be the right thing to do and we

do not intend to do that. While having said that, to look at hygiene reduction of cost, we have programs on at the moment as we speak, with the consultant as well, and we are looking very seriously into it. Coming back to the increase in sales, broadly, the emerging markets, whatever had to play out has played out. So, by quarter-on-quarter, those two including India will keep increasing. The launches in both North America and Europe will define how we claw back to the full level. It all depends on if you are able to crack a couple of big assets, then the whole story turns very quickly to the other side, but we will see how it unfolds, but yes, focus on essentially launching getting sales back that will be the key thing.

Sameer Baisiwala: Which are the big assets that you have in mind?

Abhijit Mukherjee: Some launches this quarter, mid-sized assets, the big ones in public domain, there is litigation amongst one or two assets, that ones not in litigation, I would not be commenting on.

Prakash Agarwal: Sir, just more color on the USFDA remediation measures and the cost that you just spoke about, I know total cost being $36 million, last quarter, you commented about $20 million in the 4Q. So incrementally about $16 million has been spent and what is the outlook for the cost and on the FDA remediation, sir?

Saumen Chakraborty: Approximately, you are right. Going forward it will be much lower as I said just a few million dollars more, that is all.

Prakash Agarwal: On the USFDA, so we are expecting the meeting this quarter?

Saumen Chakraborty: Yes.

Prakash Agarwal: Any broad expectations in terms of resolving and getting back our US approvals and API sales back?

Saumen Chakraborty: We cannot speculate on that. So, let us have the meeting, then we will thereafter tell you what is outcome of the meeting.

Prakash Agarwal: But from a percentage perspective, remediation measures done till what extent?

Saumen Chakraborty: Very high; closer to 97% to 98%.

Abhijit Mukherjee: Almost done. Percentage will not give the right perspective. So essentially, everything whatever is committed has been done. The institutionalization activities, which are

ongoing, which will always continue, right. We are about to send out the letter with the request for reinspection very soon.

Prakash Agarwal: Second question on India and ROW markets. India, if I am not wrong, UCB assets closed out last year around June, so would not have captured. So despite we have done about 10%, so ex of UCB, we would be, what, flat growth and how do we look going forward? Has NLEM hit us bad or if you could quantify, that would be helpful?

Abhijit Mukherjee: There was one month of UCB if I recall last year. So it is not that it was not there. Initially, when you launch in branded markets, you load channels a little bit. So there is some impact of that. So if you net of that, maybe you can take about 5 or so as the net growth. Large part impacted by NLEM as you know the current IMS has dropped very substantially. On the MQT basis, we are still leading the market as I just mentioned. So overall I think attractiveness of the market is down, but we will have to be selective on launches and we will continue our journey.

Prakash Agarwal: So we remain confident of a double-digit growth for this year?

Abhijit Mukherjee: It depends on, the NLEM did we knew 3 or 4 months back, that series of notifications will come in the market, more than just price impact, which is one aspect, the whole channel got destabilized. Frequent changes, asking for immediate stamping, whole army of people continuously stamping new prices, etc., some litigations in place. So all that has disturbed this quarter. Beyond that I think it will settle down. So yes, we are still hopeful, let us see. Low double-digit, yes.

Kumar Saurabh: Just wanted to understand, on normalized level as in ex of remediation cost as well as any one-time hit, how should we look at the base business margins? By when do we expect to reach back to the normal levels of (+20%) kind of margins -- is it something that only after the Teva approvals that we should go back or do we think that we have products in our pipeline which could take us back to the margin levels where we were?

Saumen Chakraborty: So normally we would be expecting north of 55% to be the margin of our base business. In terms of the recovery, we were expecting the recovery to be in the second half. As we alluded earlier, we were reconciled to a decline in performance in both Q1 and Q2.

Kumar Saurabh: So I was mainly talking about the EBITDA margins because even below the gross margin levels…

Saumen Chakraborty: The EBITDA margin mainly got impacted by the lower sales. If the sales are Rs. 500 crores more that is a very significant impact on the EBITDA margin going up.

Kumar Saurabh: Also, our SG&A cost as an absolute number has gone up?

Saumen Chakraborty: Yes, so remediation cost - adjusted for it will be a little less, and also as what Anil has talked from Proprietary Products that the initial cost of new launch it will also get normalized.

Kumar Saurabh: By when do we expect these NDA products to deliver the margins which our base business used to deliver?

Anil Namboodiripad: Again, I refer back to my earlier statement that with new launches, the initial period involves a lot of investment to build the market confidence and usage of the product. We actually expect to see a big ramp-up. So a lot of these investments we are making later this year and into the following year. So, we expect to have to see the benefits of all of this by late next fiscal.

Kumar Saurabh: How should we look at US sales for this year, as you said that low double-digit kind of growth you are expecting in India business, what kind of the decline we should expect for the US business?

Abhijit Mukherjee: Yes, one of the questions I was answering, expectation on the products will decide everything and approval of the product. So cannot really answer, I do not know, I cannot give you the budget because on principle we do not give you guidance on all that, but we will have to wait and watch.

Saion Mukherjee: The numbers are actually a bit confusing, the US decline. Now if you look at Valcyte, you said like it is going from $120 million to $40 million. So that is a quarterly drop of $20 million which is much lower than $50 million that we have seen. I do not know but Vidaza, we do not see Mylan or Actavis in the market yet as per IMS. You would have taken some Valcyte correction last quarter itself. That is one thing. Second thing is if you look at the material cost to sales under the Ind AS, in fact it has improved QoQ and remain flat year-over-year. So if the impact is because of pricing, we should have seen a significant correction in the gross margins which has not happened. So it is very confusing you know as to …?

Abhijit Mukherjee: Saion, I think repeatedly this question is coming up, let me give you little more details on this. So on the OTC business, one was some seasonal correction, this was not the Fexo season, number one and number two - there was some drop in the store brand Omeprazole as well. Whether this is very permanent or not, we will have to see, but there is some bit of these things which are adding up. Divalproex ER, we saw some significant reduction, but there is also positive news… that is why I was hesitant to give you little bit. Divalproex ER I think looks like we have won back some of it and

it will come back. So, it is a mix of some of these things. These things continue to happen in US market, right and there are whole host of other things, I am not going to the detail. So broadly what is more worrying is the big assets have got impacted. The Oral Solids will see immediate impact. The Injectables take a little bit of a time although it will happen. So that is the story in nutshell.

Saion Mukherjee: In terms of new launches, particularly in the US market, how should we think about it because that is quite critical in terms of gaining back margins, etc., So you have said it will be stronger in the second half. Can you just indicate how many products we should think of and also next fiscal year, so how is the pipeline looking in terms of approval?

Abhijit Mukherjee: So I said first half which is another few months to go, we will see a few, one mid-sized and a few small - hopefully depending on how we are ready for launch, some of these products are partnered. So that is the first half story. Second half story is - we have got a few bigger assets, but whether it shows up in Q3 or Q4. It is not about the number of launches, number of launches will happen, there are quite a few settlements in Q4, but they may or may not be very big. But the bigger ones, if one or two click then the story changes very rapidly, but we will have to wait. The story is not just in numbers. Numbers we will see, it is not like last year that we will not have launches, we will have launches, we will keep announcing those as we go along, but which are the assets which finally go through is going to decide the destiny.

Saion Mukherjee: I was just referring to the big assets. So you expect something this year, next year. What is the certainty there -- is it all dependent on litigation or something which you have enough visibility to say that it can happen this year?

Abhijit Mukherjee: One is in public domain which is in litigation, you know Aloxi is in litigation. Barring that, the rest couple are not in litigation, these are difficult assets depends on how much time, what, how FDA looks at it, etc., So we will see.

Saion Mukherjee: Any update on Copaxone 20 mg, how far we have reached and what is the outlook there?

Abhijit Mukherjee: So trying to fast pace as much as possible. At least the DMF with the new process – trial batch is over, the validation starting. So DMF deficiency in about 2.5-months or so, we will try to respond. ANDA is much easier because it is just taking the batches and providing the stability. But the main thing is DMF. At least the DMF will try and respond in that timeframe, more in line with what I said earlier.

Saion Mukherjee: So once you respond given that there is new guidance, when do you expect an approval then?

Abhijit Mukherjee: This is again, your guess is as good as mine. This guidance is there. We have done a lot of work. We can more or less assume that to the best of our capability, we have done a thorough job, beyond that is the agency to look into.

Prashant Nair: I just needed some clarifications. When you mentioned the McNeil contract going away, you said you gave $25 million number. Is that the likely impact on revenues or on bottom-line?

Abhijit Mukherjee: It is the bottom-line.

Prashant Nair: Can you give some sense on what the revenue would be from that contract, which would go away?

Abhijit Mukherjee: No, we will not going into those details at the moment.

Prashant Nair: Secondly on the R&D spend now, on a full year basis, where do you see it settling as a percentage of sales?

Saumen Chakraborty: It all will depend on sales. So it will be higher than the previous year because of additional R&D for XenoPort and Eisai. That absolute amount will be more or less in the same line outside these two.

Prashant Nair: Finally on the remediation cost, I understand a lot of this will go away, but is there any part of this that would be recurring or would all of it ease off once...?

Saumen Chakraborty: So whatever remediation cost I have been telling, it is more in terms of the legal and professional. But if there are some manpower increase, which happened as part of the remediation, those are there and that has been already part of our numbers

Prashant Nair: But the number you mentioned earlier in the call that is for legal and professional?

Saumen Chakraborty: Yes, that is right.

Nitin Agarwal: Can you help us understand a little bit more on how the Reditux launch commercialization in Russia is going to go forward? In general, how do you look at the Biosimilar programs for us, given that there is a lot of activity seems to be happening now both on the US and the European front?

Abhijit Mukherjee: So the big tender in Russia is in November and we are more or less getting set to participate there and overall, we are much more cost-effective, the discussions with the health ministry and the government has gone very well, they are very appreciative of

the fact that we have got them savings to the healthcare, it is a big saving. So we are optimistic about the participation in the November tender. The other markets also very actively we are moving ahead. I mentioned, we have launched in quite a few markets, small markets and there it is growing. But there are other emerging markets where very actively with agency discussions are going on. I think we are seeing much more traction in the willingness to let the file get in. So that is the emerging markets story. On the regulated markets, the journey with Merck Serono continues. As I mentioned last time, this is a little far away. So as far as the revenue impact is concerned, immediately there is nothing which needs to be factored in. But we would try to scale up as quickly as possible in emerging markets over the next 8-10-quarters, we will try to slowly start ramping up more.

Nitin Agarwal: What would be the size of our Biologics business right now?

Saumen Chakraborty: Around $50 million.

Nitin Agarwal: Bulk of that right now would be coming from India?

Saumen Chakraborty: No, in India and also there are quite a few emerging markets where we are selling.

Kartik Mehta: Is there any update on the site transfer status of Gleevec? If you could just maybe refresh us on some of the date or the quarter in which we should build in the number as per the settlement?

Abhijit Mukherjee: Gleevec, site transferred and data submitted, so it is in the process of review as we speak. There is a date given for what is called TAD. We are hopeful that we will get through. But probably you must have heard Novartis Concall which they mentioned that there will be probably a few people after the 6-months are over. So I do not know what… your guess will be as good as mine what that means.

Kartik Mehta: I just wanted to understand from you, Abhijit, in terms of the date of the launch, which would have been settled, we should expect that we should be in the market on that date in terms of site transfer being successful, right?

Abhijit Mukherjee: Yes, hope so. So far so good. We expect to launch in the financial year is what I said probably last time.

Saunak Savla: Thank you all for joining the call. In case if you have any additional clarifications, feel free to reach out to the Investor Relations team.