Dr. Reddy's Laboratories Limited

Q1 FY23 Earnings Conference Call

July 28, 2022

Moderator: Ladies and gentlemen, good day and welcome to Dr. Reddy's Q1 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Agarwal. Thank you, and over to you, sir.

Amit Agarwal: A very good morning and good evening to all of you and thank you for joining us today for the Dr. Reddy's Earning Conference Call for the quarter-ended June 30, 2022.

Earlier, during the day, we have released our results and the same are also posted on our website. This call is being recorded and the playback and 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 CEO; Mr. Parag Agarwal, our CFO and the investor relations team.

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Before, I proceed with the call, I would like to remind everyone that the Safe Harbor contained in today's press release also pertains to this conference call.

Now, I hand over the call to Mr. Parag Agarwal. Over to you, sir.

Parag Agarwal: Thank you, Amit and greetings to everyone. I will take you through our financial performance for the quarter. For this section, all the amounts are translated into US dollar at a convenience translation rate of Rs.79.02 which is the rate as of June 30, 2022.

In this quarter, we have strong growth in our profit, supported by the settlement income and brand divestment. While we were impacted by additional competition in key products in the US, cost inflationary pressure, normalization of stock holding in Russia and slowdown in the pharma market growth in India, despite these challenges and adjusted for a few one-offs, we have done reasonably well and are confident of further improving our performance from hereon.

Consolidated revenue for the quarter stood at Rs.5,215 crores, that is US$660 million and grew by 6% year-on-year basis and declined by 4% on a sequential quarter basis. Sales growth has been impacted due to higher base effect as Q1 FY22 included sales from COVID products and Q4 FY22 had higher sales in Russia, driven by stocking up which is normalized in the current quarter. This impact was partially offset with the brand divestment income in current quarter and the new product launches across our businesses while the price erosion has been in line with the trend witnessed in the last few quarters.

Consolidated gross profit margin for this quarter has been at 49.9%, a decline of 230 basis points over previous year and 300 basis points sequentially. Gross margin for the global generics and PSAI businesses were at 55% and 15.7% respectively for the quarter. While the current quarter gross margin was supported by brand divestment income, it was impacted due to several one-offs. Adjusted for which, we are within the normal range.

Let me explain these in a bit more detail -

- Firstly, our gross margins are impacted due to significant movement in the forex rate during the quarter which we believe should normalize going forward.
- Secondly, the gross margins are also impacted due to increase in the commodity prices and adverse leverage on manufacturing overhead due to lower sales base. We expect this to normalize from next quarter with an increase in our sales.
- Thirdly, in this quarter, we have launched chronic brand, Cidmus in India which is currently procured externally and have a lower gross margin. We plan to transition this to in-house manufacturing after the expiry of patent which would lead to an improvement in margin.

With the above measures planned to be undertaken, normalization of the one-offs and launch of a few meaningful products, we believe that next quarter onwards, our gross margin will improve and will be within the normal range.

The SG&A spend for the quarter is Rs.1,549 crores, that is US$196 million, an increase of 3% year-on-year and a decrease of 1% quarter-on-quarter. As a percentage to sales, our SG&A has been at 29.7% which is lower by 90 basis points year-on-year; however, higher by 90 basis points sequentially. The R&D spend for the quarter is Rs.433 crores, that is US$55 million and is at 8.3% of sales. We continue to drive productivity across our businesses while also making investments to strengthen pipeline and capability development in marketing, digitalization and people including for Horizon-2 businesses.

The net finance income for the quarter is Rs.235 crores, that is US$30 million, supported by gain on account of strengthening of ruble rate during the quarter. While we had forex related benefit in finance income, this has been partially offset due to forex impact on costs impacting our gross margin and SG&A.

The EBITDA for the quarter is Rs.1,779 crores, that is US$225 million and the EBITDA margin is 34.1%. Adjusted for the one-offs of settlement income, bank divestment and those related to gross margin, we are within our normal range. Our profit before tax stood at Rs.1,466 crores, that is US$185 million which is a growth of 97% year-on-year and a growth of 490% quarter-on-quarter.

Effective tax rate for the quarter has been at 19.0%, primarily on account of recognition of previously unrecognized deferred tax assets on operating tax losses pertaining to our Swiss entity. We expect our normal ETR to be in this range of 24% to 26%.

Profit after tax for the quarter stood at Rs.1,188 crores, that is US$150 million. Reported EPS for the quarter is Rs.71.40.

Operating working capital increased by Rs.790 crores which is US$100 million against that on March 31st, 2022. The increase was primarily driven by an increase in receivables in North America which should normalize during next quarter. Our capital investment during the quarter stood at Rs.331 crores which is US$42 million.

The free cash flow during this quarter was a net outflow of Rs.232 crores, which is US$29 million after payment of Rs.509 crores for the acquisition of Cidmus brand in India and the injectable portfolio from Eton Pharma in US. Consequently, we now have a net cash surplus of Rs.1,275 crores, that is US$161 million as on June 30, 2022.

Foreign currency cash flow hedges in the form of derivatives for the US dollar are approximately US$366 million, largely hedged around the range of Rs.77.6 to Rs.80.4 to the dollar, RUB 8,155 million at the rate of Rs.0.9204 to the Ruble, AUD 3.2 million at the rate of Rs.55.8 to Australian dollar and South African Rand 95 million at the rate of Rs.4.82 to South African Rand, maturing in the next 12 months.

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

Erez Israeli: Thank you, Parag. Good morning and good evening to everyone. Our performance of the current quarter reflects the strength of our diversified business model. We have been able to mitigate several challenges faced during the quarter by monetizing various opportunities that led to highest ever profit at an overall business level.

Let me share with you some of the key highlights of the current quarter:

1. Settlement of impending litigation for gSuboxone for $72 million, which further helped strengthen our balance sheet.
2. Completion of USFDA inspection of our new sterile injectable manufacturing facility, referred as FTO-11, leading to subsequent approval of a product from the site. This enables us to commission this plant and bring on stream additional capacities and capabilities to grow our injectable business.
3. Acquisition of cardiovascular brand, Cidmus in India and Injectable portfolio from Eton Pharma in the United States.
4. Award of the Abiraterone tender in China, which will be our second product through GPO model.

We are progressing well on product pipeline across small molecule generics, biosimilars and differentiated products / NCEs. There has been good momentum in the initiative pertaining to Horizon-2 business and sustainability goals laid out during our recently concluded investor day. All of these will enable us to continue to deliver on our long-term growth aspirations.

Now, let me take you through the key business highlights for the current quarter: Please note that all references to the numbers in these sections are in respective local currencies.

Our North America generics business recorded sales of $ 230 million for the quarter, which is a decline of 2% year-over-year and 13% on a sequential basis. This was largely attributable to the incremental competition in a couple of our key products, gSuboxone and Icosapent, during the quarter. The QoQ decline was also driven by high base for a first-to-file launch of Vasopressin Injectable with normalized volumes and pricing adjustments due to impending entry of competition on day-181. Barring these products, the price erosion for the base business has been within the normal trend seen in over the last few quarters. In this quarter, we launched seven new products, some of which should ramp up in the coming quarters. We expect strong launch momentum to continue during the year. Similar to the last three years, we believe that we can continue to grow this business on the strength of new product launches, while there will be volatility on a quarter-on-quarter basis due to the fundamental nature of generic business model.

We are preparing for a volume limited launch of Lenalidomide ANDA product in the United States during September 2022. The specific volume limited amounts of generic Lenalidomide that we are permitted to sell between September 2022 and January 31st, 2026, when we are licensed to sell an unlimited quantity of generic Lenalidomide are confidential.

Our Europe business recorded sales of €50 million this quarter with a year-on-year growth of 12%; however, a sequential quarter decline of 4%. During the quarter, we launched nine products across various countries within Europe. We expect to continue with the growth momentum in the rest of FY23.

Our emerging markets business recorded sales of Rs.903 crores with a year-on-year decline of 1% and a sequential quarter decline of 25%. The decline was due to higher base effect as we had covid products sale in Q1 FY22 and brand divestment income in Q4 FY22. Further, the increase in stock holding seen in Russia during last quarter due to the conflict has now normalized; however, has impacted the current quarter growth. Within the emerging market segment, the Russia business declined by 14% on year-on-year basis and 60% on quarter-to-quarter basis in constant currency due to the same reasons. During the quarter, we launched 25 new products across various countries of the emerging market. We believe that on annual basis, we will be able to grow this business in line with the past trends adjusted for the one-offs of covid product sales and brand divestment income in previous year.

Our India business recorded sales of Rs.1,334 crores with a year-over-year growth of 26% and a sequential growth of 38%. Adjusted for the brand divestment income in the current quarter and the covid product sales during Q1 FY22, we have grown at a healthy double-digit. During the quarter, we launched five new products in the Indian market. As per the IQVIA report of June 2022, our rank in value terms is at #10. We continue to reshape our portfolio in India business with focus on growing big brands, acquisition / partnerships for focus therapy areas, while divesting non-core brands.

Our PSAI business recorded sales of $91 million with a year-over-year decline of 10% and sequential decline of 8%. Adjusted for the covid product sales in Q1 FY22, the business has grown over last year. We expect to see improvement in the sales during balance of the year.

We believe there are several opportunities for growing our core business and building new avenues of growth. We are committed to our long-term strategy and are progressing well towards productivity improvement and making the right investment choices to deliver long-term sustainable growth in line with the strategy unveiled on the investor day.

With this, I would like to open the floor for questions-and-answers.

Moderator: We will now begin the question-and-answer session. First question is from the line of Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Parag, can you just quantify the impact of forex across line items? There is finance income but you also mentioned there are certain impact in CoGS / SGnA.

Parag Agarwal: So, Saion, the movement of ruble and some of the other currencies has led to an adverse impact in the gross margin which would be roughly around 150 basis points in that range. And in the finance income, there is the upside that has been recorded and that's because of the accounting standard prescribed method. So overall that's the kind of impact that our P&L has.

Saion Mukherjee: The second one on Russia particularly. So I just missed the constant currency growth. If you can just indicate in Russia and also, are you able to take any more hedges in Russia or the hedges that you had at the end of fourth quarter, you are running with that at the moment? And since the hedge amount is large for this year, what is the kind of realization that you will have on currency? Any anything you can guide going forward, how should we model for Russia in terms of the currency rate?

Parag Agarwal: So, Saion, let me answer. The first question is on the constant currency sales impact. During the quarter our Russian business declined by 14% year-on-year in constant currency. And as we had signaled in the last quarter, this includes the normalization of the inventory stocking that you saw at the start of the conflict. Now coming to the second point on forex hedging, as you know ruble has appreciated significantly. It used to be at a rate of around 0.9 to 1 to rupee and it is now ranging anywhere between 1.3 to 1.45. We believe this rate may not be sustainable in the long run and currently the cost of hedging is extremely prohibitively high. So we are currently not hedging. What we are trying to do as a business is to reduce our working capital cycle and we have had some success in that. So instead of hedging our exposure, we are reducing the cash conversion cycle to minimize the impact on our business.

Erez Israeli: Saion, just for me, if you take out this normalization of inventory, we will continue to grow in Russia.

Saion Mukherjee: On India, you mentioned adjusted for covid, you had healthy double-digit growth but if you adjust for the acquisition, can you share the growth number?

Parag Agarwal: If you take both out, Saion, it is the brand divestments we take out and also the impact of covid in the base, then we have grown at healthy double digits. If you look at the impact of acquisition, if we take that out, then our growth would be in single digit.

Moderator: The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: Question is for the US market. When you talk about price erosion, so you talked about couple of products. Is there any element of shelf stock adjustment on Vasopressin also in this quarter in the US sales?

Erez Israeli: Again, can you repeat?

Anubhav Agarwal: US sales are down 13% quarter-on-quarter. One is a price erosion or volume impact of Suboxone and Vascepa which you called out. But on Vasopressin, I am just trying to understand, is there an element of shelf stock adjustment there like for example $5-10 million which is just artificially depressing the reported number and when we start the next quarter, that number we start at the higher base, that's what I want to clarify?

Erez Israeli: So like I mentioned in my part is basically we see the normal adjustment that is related to day-181 situation and that's what impacted us in this quarter.

Amit Agarwal: Yes and on the SSA adjustment, there was no such major impact, Anubhav.

Anubhav Agarwal: When you say SSA what does that mean?

Amit Agarwal: Shelf Stock Adjustment what you mentioned.

Anubhav Agarwal: So you're not saying that we happen to record higher sales of Vasopressin in March quarter and we were surprised with the price erosion, so there is no element. So net-net $230 million that we're reporting, let's say that becomes opening base for the second quarter for us.

Erez Israeli: We are not guiding but let's say we do not see any surprises the way that you describe.

Parag Agarwal: I think the important point to remember is that the price erosion that we have seen in this quarter in aggregate is in line with the trends that we have seen in the last few quarters and we are not seeing any sign that it is worsening. So that's the point I would like to make.

Anubhav Agarwal: Second is in the Russian market. Now, we've seen good amount of July as well. Has there been any element of us, some market share gains, some visible signs of that happening or is it business as usual, can you give some qualitative what's happening in the Russian market?

Parag Agarwal: In Russian market, we are seeing our operations are normal. The flow of money within Russia and from Russia into India is also normal. There are certain companies have shifted their spends from above the line, which is the mass media or TV to below the line which is trade discounting and so on. So there are some shifts in the way spends are made which are happening in the market, but overall, we are finding that it is business as usual. As you know, in the area of medicines, we are very focused on making sure that patients get our medicines and right now I am happy to say that our operations are normal.

Anubhav Agarwal: Just a clarity on this. So what I meant was for example with ruble to INR conversion is much easier than let's say ruble to euro or USD. So is that benefiting you guys or in general the Indian company take a higher share in the Russian market and have you seen any visible signs of that?

Erez Israeli: So, in terms of visibility for the reported quarters, we did not have impact as such. We do not see at that moment anyone that actually leaving Russia. All the pharmaceutical companies to the best of our knowledge and our visibility are working in Russia or operating in Russia. Likely that long-term it will change, but right now that's what we see. In terms of our business in Russia is favorable. People understand that we took a decision to continue to work in Russia and indeed it's comfortable for us to work and probably it will help us in the future, but as we speak, business as usual is the right way to give it the best transparency of what we see on the ground.

Moderator: The next question is from the line of Damayanti Kerai from HSBC. Please go ahead.

Damayanti Kerai: My question is on US business. So you have a sizeable portfolio of injectable products in the US. So can you comment like how pricing erosion in this part of the portfolio stand against the pricing erosion in the broader portfolio which mainly consists of oral solid? And also in terms of some of the complex generic launches which we are anticipating in the future, what are your expectation on the pricing part?

Erez Israeli: On the injectable business in terms of erosion is similar. So if the number of competitors are coming and facing, handful of customers, the price erosion is the same, and also the pattern of the procurement is the same. So we don't see a different behavior. Only I think a big difference in terms of injectables in which you can work directly with the hospital as well as to work with the wholesalers. And of course this is allowing you more flexibility as it's related to a share and market growth. More and more in our case, we will see more injectable coming. Naturally, as this is where the path of this case and this is where many people will go. I'm not sure I capture the second part of the question. If you can repeat please?

Damayanti Kerai: Yes. We are working on various complex generic products, many of those are injectables and these products might come over next few years. So I was asking in terms of pricing, how do you see these products stand in terms of pricing erosion once they come in market compared to the current portfolio which we have?

Erez Israeli: So some of the products that we will launch in the future may see limited competition and these are the products that some of them we indicated during our investor day, some are in our pipeline and we did not disclose. In general, like I said before, if there are multi under the roof of a product, we will see similar phenomena on price erosion, also for the injectables as well. I don't think that there will be significant difference in the behavior or the pattern of the procurement of the hospitals as we speak in that perspective.

Damayanti Kerai: My last question is, can you comment on the trends which you are observing in the commodity prices or logistic cost, etc.? Has there been any change compared to what we saw in the previous quarter like any sign of moderation there?

Erez Israeli: No signs of moderation. We see some of the commodity price still impacting especially those that have inventory attached to it as well as a shipping cost. Normally, there is some time that it takes while the oil and some other commodity price go down, then of course accordingly normally in certain period of time for weeks to months, we start to see the impact also on our results, and of course, the real impact we can capture only when we sell this product. So likely there is any change that will happen to this market, we will see only six months from now.

Moderator: The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Question is on gross margins. So I heard Mr. Parag saying about 150 bps largely due to ruble, but correct me if I'm wrong that rupee, dollar also had a substantial movement and you also said that there was a high base last quarter on Vasopressin. So that would also come down a bit. So are these not also factors which led to some decline in the gross margins?

Parag Agarwal: So overall the forex impact I told you was in aggregate. The US dollar-rupee impact isn't significant. So the important headline is if you take out the positives and the negatives both which are non-recurring, then our gross margins are in the normal range. If you look at our last several quarters, our gross margins fluctuate between 51% to 53-54%. And the point I'm making is that our reported gross margin is 49.9% which has benefited from divestment of brands in India, but there are a number of other one-offs which are non-recurring in nature. And if you adjust these as well, in aggregate our base gross margin is in the normal range. So that's the headline that I want you to understand.

Erez Israeli: I want to add to that, we do not see a change in the pattern of our gross margins going forward as well. So like we discussed in previous calls, the nature of the game in which is impacted like forex or inventory or price erosion etc., we will always be in the range of somewhere between the numbers that Parag just mentioned, and this will continue also in the future. So we can reiterate that this is the margin that we feel comfortable on the gross margin and we reiterate also what we discussed in investor day about our commitment for the EBITDA margin as well. So what we see is a consistent, if you wish, performance that is related to that. Probably now we see it more on the lower part of the range, but within the range.

Prakash Agarwal: Trying to understand this when we met in Mumbai R&D day, so we had talked about 25% EBITDA margin and I understand this is ex-Revlimid, right. So are we on track for fiscal '23-24 in that range and then given that we had a blip in Q1?

Erez Israeli: So we are consistent with what we discussed in Mumbai. It was only a few weeks ago. What we said I just want to make sure that it's the same, it's not necessarily a number that we will achieve every quarter in the next many, many years, it will fluctuate. What we are saying this is the number that on average we are going to get which we feel comfortable with, which will allow us both to invest in the future and also to give the right return for the shareholders. Indeed, in the case of very successful launch of Lenalidomide, it could be higher than that and after that it can be lower than that. This will continue, these kind of fluctuation. On an average, we are consistent of what we discussed in Mumbai.

Parag Agarwal: Just to clarify, the aspiration of 25% that we have stated is not including or excluding any particular product. It is the margin in aggregate for our business.

Prakash Agarwal: Just a clarification on Revlimid, when you say, launch it includes the two exclusivity as well as the other strengths, right?

Erez Israeli: Correct.

Moderator: Our next question is from the line of Neha Manpuria from Bank of America. Please go ahead.

Neha Manpuria: Parag, again on the gross margin. If I take out the brand divestment in the quarter, we're closer to about 47%, 47.5% margin. From your comments, it seems like the FX will normalize but there was also expectation that commodity prices wouldn't come off. So what essentially will lead to normalization of this - would it be Revlimid launch which will essentially help improve this margin? I'm just trying to understand what will move us from the existing margin to our normalized range that we're talking about.

Parag Agarwal: Neha, there will be two, three drivers. One is I wouldn't single out Revlimid first of all. I think I would say that the margins of the new product launches including Revlimid would be one significant driver of an uptick in the gross margin. The second would be as I pointed out, there are brands like Cidmus where we are sourcing them externally and we are working towards internal sourcing and Cidmus is one example I have given you. As part of our productivity initiative, we constantly work on in-housing brands which will lead to an improvement in our cost base. So that is going to be clearly a second lever which is part of a larger productivity lever. There are a series of cost improvement programs that we are driving, looking for alternate vendors, improving plant yields. If you remember on the investor day, Sanjay presented our productivity status for each of the three businesses, which is OSD, API and Sterile and where we were a few years back where we are now, and the further headroom that we have in productivity. That's going to be the second significant lever that gives us the confidence that we'll maintain our gross margins in the normal range.

Erez Israeli: And the other is that the EM, India and Russia, because of the normalization that we say, we are going to have more visibility to growth as we discuss on this, some of them were one-off and some normalizations as well as the API that is growing as well. We are very confident even without Revlimid, the gross margin will be there.

Neha Manpuria: Second, on the PSAI business, I understand the base impact in the previous year because of COVID. But if I were to look at it quarter-on-quarter also, there's been a moderation. So are we seeing some amount of customer destocking or customer inventory being high which is limiting our ability to scale up that business? And also on the PSAI business are we able to pass on the cost pressures that we are seeing in the PSAI business to our customers because margins there seem to have deteriorated too?

Erez Israeli: First, after a few quarters in which we saw the decline of the API which is one component of the PSAI, this quarter we see that we are coming back to growth. It's a very single digit growth, but we are growing and we believe that this will continue and we do see the pickup. And this is primarily being driven by new products and new customers, new territories. The second piece that is growing for us is the activities that we have captured under PSAI. We call it API plus in which we are selling dosage forms in countries in which we do not have direct access. So we do see a pickup in this business very, very nicely and it's actually very helpful. The third part which is also growing although it's not yet contributed significantly is the CDMO activity on the small molecules. The part that disappeared this quarter from the number is COVID which was there last time and this is why it could certainly decline, but overall if you normalize it, for us it is the growing business now.

Neha Manpuria: On the margin sir?

Erez Israeli: More the API will grow, accordingly the margins will go up, because it's a very cost-based type of the business and it very much depends on that, so the margins will grow.

Moderator: Next question is from the line of Balaji Prasad from Barclays. Please go ahead.

Keera: This is Keera on for Balaji Prasad. Just wanted to circle back on generic Revlimid. I guess could you just provide any further color on expectations here? And also just any further color on key launches in the US this year and next?

Erez Israeli: So like I mentioned, we are going to have a volume limited launch during September 2022 and we will have that kind of permission to do that between September '22 and January 31st of 2026, after that it will be unlimited. And naturally we are ready for that and looking forward for that to happen. As for the other launches, we will have 25 plus of other launches in the United States, and overall very consistent of what we discussed during the discussion of the investor day and we are confident that we will continue to grow United States on the CAGR basis with what we call from time-to-time in which we will have blips ups and blips down as it's related to the nature of the product when we will have them. So this quarter is a bit down, next quarter it will be up. Overall, it's in the direction that we have discussed in the past.

Moderator: Next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Parag, just wanted to make sure on your comment on EBITDA margins for Q1. You did say that if you exclude one-off then even EBITDA margin was in the range of what you normally do which I presume is 23%, 24%.

Parag Agarwal: To clarify, our reported EBITDA margin, Sameer, is 34%. If you take out the impact of gSuboxone settlements and the brand divestment, then it's around 20% and then I spelled out a few non-recurring adverse impact, for example, the COVID sales in the base and the gross margin, if you adjust for that, our EBITDA is in the normal range of 21% to 25%. If you look at the last several quarters, our EBITDA margin typically structures in this range. So that's what I mean by normal range.

Sameer Baisiwala: The second question is for the sale of brand what you have recorded Rs.230 crores through revenue line items. What's the cost against that, I guess I'm just trying to say that what's the EBITDA impact of this number?

Parag Agarwal: It's the total proceeds of the divestment and therefore the entire amount falls to EBITDA.

Moderator: The next question is from the line of Surya Patra from PhillipCapital. Please go ahead.

Surya Patra: First question was on the Revlimid. So you mentioned about the likely launch of the product starting September. Just wanted to have a sense what should be the competitive intensity here and more importantly what I was trying to understand is the limited volume condition. How rigid is that condition under settlement because even Teva's launch is also mid-single digit kind of a volume condition only they would have launched. But the prescription trend indicate that they are having double-digit kind of percentage volume currently. So that is why just trying to understand how rigid is the limited volume condition for the settlement period?

Erez Israeli: It is rigid in the case that we can sell exactly the amount stated in agreement and the volumes and the market share is confidential like I mentioned. So I cannot discuss that. Actually it's a very significant launch for us. Also, the intensity of the competition, of course, depends how many players will be there and what will be their volumes that they can supply into the market at that point of time. That's yet to be seen. We will have to wait and see. We believe that it should be a very good launch for us.

Surya Patra: Because my point was also, if the volume limit condition is also not rigid, then there could be kind of a larger competition and hence the price erosion could be larger? So that is the ultimate point that I was trying to understand here.

Erez Israeli: I understand the question. Unfortunately, I cannot share the details.

Surya Patra: Sir, second question is on the therapeutic revenue mix what we have said in the 20F filing. So last year obviously the global generic revenue growth if you consider it is around 16% kind of a growth that we have seen. But the large part of the growth has come from the anti-infective as a segment. So there was a kind of a 74% kind of jump in the segment, whereas the other segment remain either single digit or muted or low double digit kind of a trend. So whether that is the concern area for the growth of the current year, if we ignore the Revlimid contribution for the time being, then whether that can have kind of a moderated trend for the current year in general for branded business, let's say, India, Russia, emerging market like that?

Erez Israeli: I do not see a concern.

Surya Patra: In fact, the Aurigene licensing arrangement what you had with Olema of US, so whether that $8 million upfront received, that has been booked in this quarter?

Parag Agarwal: No, it has not been booked, it is to be amortized over the contract period which is over four years.

Surya Patra: Even the upfront amount is also to be amortized over the period?

Parag Agarwal: That's right.

Moderator: The next question is from the line of Tarang Agrawal from Old Bridge Capital. Please go ahead.

Tarang Agrawal: Just one question sir on the M&A strategy, what we've observed is you've recycled some of your brands in India, you've got segments on one side and you've also bought small injectables of a couple of products. So just wanted to get a sense on what is the kind of advantage you get by getting rid of other brands in India, does it release a decent amount of sales force which can then be devoted into some other divisions and the thought process behind buying the small injectable space that you have?

Erez Israeli: Thank you for the question. The divestment in India, we have a clear strategy in which segment we want to focus on and which segment we don't and which brands we want to focus on and which brands we don't. So what you're going to see in India and on top of it you can get very nice value for the brands that are not in the focus which we like to monetize it. We feel that it's a better alternative for the capital allocation of the company and also for the performance of the company. So likely what you are going to see in India in which we will sell brands that are not in focus and we will actually even buy brands like we did this quarter, with Cidmus and the Novartis deals. So you're going to see both and these deals will allow us to establish ourselves when we also add both the Horizon-1 and Horizon-2 activities in India to bring us the aspirational number of five. In the case of the United States, we are always trying to find those low competition assets, especially if they are in injectables in order to create a better portfolio for the United States and for the customer in the United States and if we do not have the means or we did not develop it in the past, we are getting it from others. That's why the way what we did at the time of Suboxone, that's what we did with the Icosapent. So it's something that we are doing for many years and we'll continue to do so. So our pattern in the US will continue to be products that we develop ourselves as well as licensing and products that we acquired.

Tarang Agrawal: Just to follow up on the India piece. Does it release some kind of MR bandwidth to focus on some other brands and the kind of maybe gross profit or EBITDA that you might have lost by virtue of letting go of these brands?

Erez Israeli: So absolutely it is helping us to focus our resources on the brands that we believe. This is part of what focus means. In terms of growth, we believe on the long term it will help us to grow. Naturally, quarter-on-quarter, we may need to adjust for those sales that will be missing and we will have to be cognizant of that. But on the years basis, we will go faster actually by focusing on the area that we believe that we have better competitive advantage.

Tarang Agrawal: Have we lost any EBITDA or gross profit by virtue of divesting these brands?

Erez Israeli: We're not losing, actually gaining because if you take the EBITDA this product would have made versus the price that you have got for it, it's a better deal for the company.

Moderator: Our next question is from the line of Kunal Dhamesha from Macquerie. Please go ahead.

Kunal Dhamesha: In terms of volume percentage allowed for us for Revlimid, is it calculated on annual basis or calendar year basis?

Erez Israeli: All the details are confidential at this stage.

Moderator: The next question is from the line of Bino Pathiparampil from InCred Capital. Please go ahead.

Bino Pathiparampil: Just a clarification. So this Rs.230 crores of brand sales that you generated, that is part of this Rs.1,300 crores of India revenue that you have reported, correct?

Parag Agarwal: Yes, that's right.

Bino Pathiparampil: Second, in the US, you mentioned about incremental competition in a couple of products. Did you see incremental entry of a new player in any of the key products or is it that the existing players got more aggressive? I'm asking this because you specifically said two products.

Erez Israeli: In these two products, Apotex launch competition for both during Q1.

Bino Pathiparampil: Do you mind naming the products?

Erez Israeli: I said Suboxone and Icosapent.

Moderator: Next question is from the line of Darshan Jhaveri from Crown Capital. Please go ahead.

Darshan Jhaveri: The performance in this quarter considering all the one-offs that we have, could we take this performance as a base and sustainable quarter run rate if you could just give some color on that, that would be very helpful?

Erez Israeli: I like to use the work consistent. So it's very much consistent one with the strategy in our investment and consistent also with the performance. With the understanding that we are facing sometimes the situation in the market is sometimes will be in favor and sometimes not, but overall all the stuff that we discussed, our growth which will be in the US single digit, outside of the US double digit, then the EBITDA and the ROCE targets that we discussed in the past, we are still there and very consistent with what we have discussed in the past.

Darshan Jhaveri: Another just a clarifying thing, so revenue and margins will be along these lines only, right, so we would see considerably around the same range in this year and maybe could you just give us some clarity on what would a normal otherwise look in FY24 or something sir?

Erez Israeli: Again, we are not giving guidance, but I am repeating what I said before. We said that we are continuing to grow on a double-digit outside of the US, single digit in the US and we are aiming for about 25%-25% from EBITDA and ROCE. This is still valid. We cannot guide the quarter or a specific year. This can fluctuate but we will be in the neighborhood of those numbers, sometimes up and sometimes down, but we very much believe that we are in this area, and not just that we believe that it will even allow us to invest well into the future, so we can be consistent for many years like this.

Moderator: Our next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just on the injectable business, what is the current size annually and are we seeing some supply challenges in terms of syringes, stoppers, etc.,?

Amit Agarwal: That's about 16%-17% of our business from injectable.

Erez Israeli: And we do not see right now a challenge of supply.

Prakash Agarwal: Because one of your peer group has talked about in the recent call that there have been shortages in stoppers and syringes especially for the US markets, that's why.

Erez Israeli: I don't recall this.

Prakash Agarwal: Secondly, on this Indivior’s you recognizing in this quarter, I understand the case was won sometime back. So what triggers the recognition particularly for this quarter?

Erez Israeli: The litigation that that we won in the past was on the IP case. If you recall we were injuncted when we launched the product in June 2018 and we were denied to go to the market for nine months and the $72 million is a settlement for that period of time that we were denied from coming to the marketplace.

Prakash Agarwal: This was some quarters back when we won the case?

Erez Israeli: No, I am repeating, there are two separate issues. One is to win the IP case, means that the court decide that we are in an un-infringement situation and the other is to win the case that we believe that we should get money back because we were denied to go to the market during the injunction period. So this is for the second part.

Parag Agarwal: So this is a settlement that we have entered in to in this quarter and that's why we have accounted it for now.

Moderator: The next question is from the line of Madhav Marda from FIS International. Please go ahead.

Madhav Marda: I just had one quick question. So the India brands which we have sold like what is the EV sales or EV EBITDA at which we have sold it, so the Rs.230 crores that we have recognized?

Parag Agarwal: They are different brands. They have been sold to different companies at different multiples, but the average multiple ranges between 3.5 to 4 of sales, just to clarify, I am giving you the sales multiple.

Moderator: Ladies and gentlemen, due to paucity of time, that would be our last question for today. I now have the conference over to Mr. Amit Agarwal for closing comments. Thank you and over to you, sir.

Amit Agarwal: Thank you all for joining us for today's earnings call. In case of any further queries, please get in touch with investor relations team.

Moderator: Ladies and gentlemen, on behalf of Dr. Reddy's Laboratories Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.