Dr. Reddy's Laboratories Limited

Fourth Quarter Fiscal 2011

Earnings Call Transcript

Kedar Upadhye *(Investor Relations)*

Thank you, Melissa. Good morning and good evening to all the participants. Welcome to Dr. Reddy's earnings conference call for the fourth quarter and full year ended March 31, 2011. Earlier during the day we have released the unaudited consolidated financial results under IFRS and the same are also posted on our website. We are conducting a live webcast of this call and the transcript shall be available on our website soon. The discussion in this call will be based on IFRS consolidated financials. To discuss the business performance and outlook, we have on the call today, GV 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 release also pertains to this conference call and webcast. I would now like to turn the call over to Umang Vohra.

Umang Vohra *(Chief Financial Officer)*

Thank you, Kedar. Good morning and good evening to everyone. I welcome you all on this call today. I will discuss the key financial highlights and for the purpose of these financial highlights, all the figures referred to in this session are translated to US dollars at a convenience rate of Rs. 44.54 per US dollar. The financial highlights from our performance are as follows.

Consolidated revenues for the full year 2011 at $1.68 billion represent year-on-year growth of 6%. Revenues for the fourth quarter are at $453 million and represent year-on-year growth of 23% and sequential quarter growth of 6%. Revenue from Global Generics stands at $1.2 billion for the year representing year-on-year growth of 10%. Revenues from the Pharmaceutical Services and Active Ingredients segment which we will refer to during this call as "PSAI" are at $441 million for the year represents a decline of 4% over the previous year.

Gross profit margin for the year is at 54% versus 52% in the previous year. This improvement is due to a favorable mix of high margin products launched in the US. Gross margins for the Global Generics segment is at 65% versus 60% in the previous year in line with a higher contribution from our US business. In the PSAI segment, gross margin was at 26% versus 33% in the previous year largely due to price erosion of the portfolio of existing products and de-growth in our CPS business segment.

SG&A expenses including amortizations for the year are at $532 million, an increase by 5% over the previous year. This increase is largely attributed to legal expenses in the US, OTC related marketing expenses in Russia and CIS and new field force related expenditure in India. We have also seen a benefit of lower salaries and employee related spends post the restructuring in Betapharm that we carried out last year. In our Q3 earnings call, we had mentioned about certain one-time expenses in that quarter. Correspondingly, SG&A expenses for the fourth quarter are at $138 million and represent sequential decline of 6 million from the previous quarter which was Q3.

R&D is at $114 million for the year, is 7% of sales versus 5% of sales in the previous year. R&D for the quarter at $33 million is sequentially higher by $4 million over the previous quarter. This increase is on account of plant scale up of R&D activities during the fourth quarter. Cumulatively, absolute R&D expenditure has increased by 33% this year.

During this quarter we had some accounting and non-operating benefits which we have excluded when reporting our adjusted PAT and I shall cover that later. We have excluded the profit from the sale of land which resulted in a profit of approximately $7 million. In addition, as part of the purchase price allocation accounting under IFRS for the acquisition of GSK's penicillin facility, we recorded an amount of $1.6 million towards negative goodwill which has been included in other income.

Adjusted EBITDA is at $369 million for the year which is 22% of sales. Adjusted EBITDA for this quarter is at $106 million and registered growth of 34% over previous year. The annual effective tax rate for the year is at

11% as we have been communicating throughout the year this decline impact reflects the benefit of higher weighted deduction in our R&D expenditure granted in the Union Budget of 2010. Adjusted profit after tax for the year is at $242 million is 14% of sales and grew by 17%. Adjusted profit after tax for the quarter is at $69 million and represents an increase of 57% over the previous year.

Key balance sheet highlights are as follows:

Our operating working capital has increased by $206 million from the previous year. The increase in inventory is largely on account of anticipation of new launches in the next three to six months. We have also been increasing the proportion of sea shipments to optimize on the freight cost and this has caused an increase in transit stocks. Increase in receivables is also related to the large base effect of the current quarter sales, both in the emerging markets as well as the US.

Capital expenditure for the year is at $198 million.

Foreign currency cash flow hedge options for the next 18 months stand at $345 million as of date, hedged largely in the range of Rs. 45 to Rs. 47 a dollar. In addition to these we have approximately $215 million on balance sheet hedges of receivables.

Our current net debt is at $401 million and net debt to equity is at 0.39. The increase in net debt from the previous quarter is largely due to the issue of bonus debentures made in the quarter and funding for the acquisition of GSK's penicillin facility and collaboration for Valeant's Cloderm brand that we made in the US. For both these arrangements , we paid approximately $60 million. With this, I now hand over the call to Satish.

Satish Reddy *(Chief Operating Officer)*

Thank you, Umang.

Hello everybody.

I will now cover the business highlights. For the section, analysis is based on performance in respective local currencies. So in fiscal 2011, we had modest sales growth. The contribution from our emerging markets and North America helped offset the decline in Europe.

Let me begin with the highlights of each of our focused markets starting with North America Generics.

Revenue for the year were $417 million, grew by 18% over the previous year. Revenues were $131 million for the fourth quarter and registered sequential growth of 23%. This demonstrates the fifth consecutive quarter of sequential growth. During the last quarter we launched three new products and the total number of new launches for the year is at 11. Market share for most of our products continue to hold steady or increase, at times ahead of what the IMS trailing indicator suggest. As you are aware in the month of January, an earlier preliminary injunction on Fexo-Pseudo 24 hour strength was lifted. This allowed us to launch the product under the exclusivity period and this limited period launch contributed reasonably to our growth in the fourth quarter prior to Fexofenadine molecule franchise switching from prescription-to-OTC. We are still in litigation with the innovator on the bond posted in the court and also expect to monetize the value from Fexofenadine molecule family through our private label OTC business. In fact, our fexofenadine immediate release OTC product has already been approved and launched in April; the first such launch in the market. During the year we have filed 20 ANDAs and cumulatively we have 75 ANDAs pending approval in the US FDA, of which 37 are Para-IVs and 10 are first-to-files.

Now, moving on to India, revenues for the year are at $257 million or Rs. 11,690 million with year-on-year growth of 15%, out of which volume growth contributed 11% and new products contributed 4%. For the quarter, revenues are at $61 million or Rs. 2752 million representing growth of 5% over the previous year. This includes adjustments on account of net recognition of revenues and certain pricing actions that we have taken in the portfolio, without which the growth would have been 10% for the fourth quarter and 16% for the full year. We are not really satisfied with these numbers especially for the fourth quarter. However, we think Q4 performance is just an aberration and Q4 is generally weak for us and we have also seen the amount of bonus offers being higher in this particular quarter by some of our competitors especially on the acute portfolio of products. On a full year basis, our reported growth continues to be in line with the market growth of 15% as per the ORG-IMS data for MAT March 2011. During the year in India, we have also launched 48 products including one Biosimilar, darbepoetin alpha. In this week we also announced the launch of Peg-Grafeel which is our brand of pegfilgrastim. With this we now have four products in our Biosimilar portfolio in India, representing approximately 5% of our India sales.

Now, moving on to Russia, revenues are at $196 million recording a year-on-year growth of 29%. Revenues for the quarter at $48 million represent 39% growth over the previous year. This momentum for the full year is on the back of the contribution from new launches and volume increase of 32%, partially offset by the marginal price decline. Our growth of 19% as per the Pharmexpert secondary sales data for MAT March 2011 is higher than the industry growth of 7.5%. Our rank in Russia currently stands at 15 and you would have noticed that we have been outperforming the industry growth for the last several years. During the year we launched 7 new products, most of which were in-licensed and in the OTC space. Our OTC sales are approximately 25% of our overall product portfolio and continue to grow steadily in line with our strategic intent.

Talking about Europe generics, revenues at EUR 140 million declined by 13% over the previous year. The 41% growth in the rest of the Europe was more than offset by the de-growth in Germany. Revenues in Germany for the year at EUR 91 million, declined by 17% largely due to the tender based price compression. However, the measures taken in the previous year to restructure the betapharm organization has resulted in significant improving of the operational cash flows. In the recent tender awarded by AOK, we are quite pleased with our performance. We have won the bids in 12 products across 74 lots and most of the molecules won by us are manufactured out of India. While the prices are low for this tender we believe that this win will help us strengthen our market presence in Germany. We expect the tender supplies to start in this current quarter ending June 2011.

Talking about the PSAI business, revenues for PSAI business for the year have remained flat over the previous year at $431 million. For the quarter, year-on-year growth of 14% and sequential growth of 10% were largely led by new launches in the Active Ingredients business. For the year, Active Ingredients business grew modestly on the back of the new launches that was offset by pricing pressures in existing base business. Revenues from the pharmaceutical services segment declined sharply due to lower customer orders during the year. This can be partly attributed to optimization of investments by some of our customers in the large pharma and biotech space. During this year we have filed 56 DMFs globally, including 19 in North America, 7 in Europe and 30 in rest of the world markets. With this the cumulative filings stand at 486 globally.

I now hand over to Prasad for his comments.

GV Prasad *(Chief Executive Officer)*

Thank you, Satish.

Fiscal 2011 was a mixed year for us. We focused on consolidating several of our initiatives aimed at revenue growth and productivity of capital and resources. While we are not fully satisfied with our performance we certainly gained traction towards realizing our strategic goals. We recorded full year revenues of about $1.68 billion at an ROCE of 17.5%. The ROCE calculation excludes one-time benefit for the profit from sale of land and negative goodwill accrued in one of our acquisitions. This ROCE is slightly below the lower end of our guidance range due to deferral of some high value launches in the US business, sluggishness in the PSAI segment and under performance by the India business in the fourth quarter.

On this backdrop, we look forward to the next two years as years of significant scale up for us in terms of the number of launches, units to be manufactured and sold, revenue stretch and customer facing activities in the markets. We have invested significant resources to face execution challenges associated with this scale up and we hope to be well positioned to realize the growth. The outlook for FY12 is positive. We expect the largest increment of growth to be contributed by our US Generics business from the various high value opportunities such as Olanzapine 20 Mg exclusivity, Fondaparinux launch, Fexofenadine OTC franchise, new customer orders at our Shreveport facility and new launches from the penicillin facility that we recently acquired from GSK. We also expect continued momentum and above industry performance from our emerging market geographies. The PSAI segment's performance will largely be driven by the Active Ingredients business. The order book status has improved considerably in the last few months in this business. These growth drivers give us the conviction for the strength of our fiscal 2012 performance. As communicated in one of our earnings calls earlier, to some extent, our performance is contingent on regulatory approvals and litigation outcome which are sometimes subject to uncertainty and also to variability. In view of this, we prefer not to provide any yearly guidance.

We believe we are on track to achieve our FY13 aspiration on ROCE. On the revenue front, for FY13, our visibility of the base case forecast suggests a roll up of approximately $2.7 billion. To support this growth, we have invested significantly in fixed assets and we continue to de-bottleneck our manufacturing facilities. We have planned to increase the annual capacity at our formulation facilities in India from 16 billion units at the end of last year to around 23 billion units by FY 13. We also have been investing in our Shreveport facility with the objective of simplifying the supply chain complexities in US.

In our Proprietary Products segment we see good progress in the portfolio. We recently launched our fourth Biosimilar in India Peg-Grafeel, and our multiproduct facility gives us the flexibility to scale up according to real-time market requirements. The current capacity and new cell culture manufacturing facility when commissioned later this year will meet all our emerging market requirements through 2015. In the US branded space, as you are aware, we have a portfolio of three small products. The recent collaboration with Valeant to market a product called Cloderm will bolster our ongoing efforts to build a successful prescription branded portfolio. And this year we have initiated the Phase III studies of our lead dermatology program for

onychomycosis. And we also continue to build the data to support our CETP inhibitor, DRL 17822 and we are going to initiate the Phase II study shortly.

The outcomes of our efforts in business development and alliancing activities were quite productive this year. Summary of some of the transactions are as follows: In Russia and other CIS markets, we have entered into various in-licensing deals largely for expansion of our OTC portfolio. This has helped us strengthen our market presence in the OTC business. In the Dermatology space, as mentioned earlier, our collaboration with Valeant will help us build up this franchise. In US, the acquisition of GSK penicillin facility filled an important gap in our portfolio in the antibacterial market to certain extent. Earlier this year we have purchased the sake of our partner in the South African joint venture and converted it into a wholly-owned subsidiary. South Africa is an important market for us and we plan to increase our presence there especially in the areas of CNS, Oncology and Women's Health.

With this, I will end and thank you all for your attention. Now, we can take questions from the participants.

Q&A Session

Anubhav Agarwal: Thanks. Sir, one question, Allegra D-24, is there any inventory which is remaining in the channel for which you may have to take an adjustment in the next quarter, once Sanofi has launched, you have taken back the remaining inventory?

Umang Vohra: Almost all of the inventory is liquidated, we do not have any significant inventory that will have any effect on the next quarter.

Anubhav Agarwal: Just another question on Allegra itself. After the family has done the OTC transition, what has been the drop in the market size for the entire family after you and Perrigo launch also?

Umang Vohra: It is too early to give you some numbers. There are no numbers out as yet. But we are tracking this and we could provide these numbers to you later but I think there could be expected to be about 25-30% decline.

Anubhav Agarwal: Your gross margin declined sequentially despite strong sales of Allegra D-24 this quarter, any particular reason there?

Umang Vohra: The mix may have played an issue. I think Russia sales were very high as it was season for Russia in Q3. That may have been a reason why you have seen a sequential decline.

Anubhav Agarwal: Nothing beyond that? You were just lower India sales and slightly weaker Russian sales.

Bino Pathiparampil: Hi, thanks for taking my question. Just wondering that if you have started recognizing any revenue from the penicillin facility in the US?

Umang Vohra: We have done some billings in April but bulk of our revenue is expected around September or October of this year.

Bino Pathiparampil: So there is nothing in the reported numbers now?

Umang Vohra: Nothing in this reported numbers.

Bino Pathiparampil: Also, can I get an update on Fonda, we have been waiting for several quarters now?

Umang Vohra: We are still awaiting the FDA's decision on Fondaparinux. We believe we have submitted all the data that is required, and we are awaiting the decision by the FDA. So there is no change in status in terms of the approval status and what we know.

Bino Pathiparampil: And when is the last interaction?

GV Prasad: This happens on a weekly basis, but nothing significant that has been informed to us as of now.

Bino Pathiparampil: Okay, I will join back the queue.

Nimesh Mehta: Just one question. Are you likely to launch ziprasidone or Geodon under 180-day exclusivity this year?

Umang Vohra: We cannot comment on that, I am sorry, we cannot give you product related and futuristic comments.

Nimesh Mehta: Do you have the 180-day exclusivity if you can confirm?

Umang Vohra: Sorry, we cannot confirm that.

Nimesh Mehta: Okay, fine, I will join back the queue.

Hitesh Mahida: Congratulations for good set of numbers. Just wanted to know historically, we have grown in the higher teens as far as the domestic market is concerned. So what was the reason for such a low growth during the quarter? And wanted to know our market share as far as Tacrolimus, Lansoprazole, and Fexofenadine is concerned?

Umang Vohra: So I will maybe explain the India related growth. What we have seen in Q4 is definitely a lower growth compared to where we were, nine months, we were growing at about 18% and this quarter has been at 5%. Without the exceptionals that Satish has pointed out we think we would have grown to about 10% and those exceptionals relate to pricing pressure and price actions taken on some of our portfolio products. Volume growth still remains for us stronger than the 5% that we have reported. It is also our understanding that this quarter has been slower for other companies as well.

Kedar Upadhye: **Hitesh,** on the question of market shares; .the IMS reported market share for tacrolimus is about 28% of the generics space, lansoprazole is about 9%, you wanted some more products?

Hitesh Mahida: Fexofenadine?

Kedar Upadhye: Plain fexofenadine is about 35%. This is the prescription Rx part.

Hitesh Mahida: Okay, thanks a lot.

Nitin Agarwal: Thanks for taking the question. My question is on SG&A cost. The base that we are running where in Q4 is like a base, we should assume as a recurring base or there are some sort of one-offs even in the base for the quarter?

Umang Vohra: I think this could be a good base to consider. You have to take inflation into account going forward because the salary increments, etc., would be necessitated in the quarter that we are right now.

Nitin Agarwal: Because considering the fact that our top-line grew about 6, 7%, so the increase in SG&A seems to be on the higher side given the fact that we have had a lot of focus on controlling costs in this area over the last few years.

Umang Vohra: I think what is also happening is that our OTC expenditure for the Russia diversification into OTC is there. That includes advertising on TV, etc. That expenditure comes little before you begin to see commensurate revenues and I think that this year has been pretty intensive in Russia on account of that which we had also pointed out in Q3.

GV Prasad: That is also because of our investments in India field force expansion which has not turned productive yet because of the lead times, and also preparing for all the other growth launches in the next two years, that has increased our SG&A.

Nitin Agarwal: Secondly, on this penicillin business that you bought from GSK, what exactly is the strategic rationale behind acquisition of this business?

GV Prasad: We acquired their brands and NDAs for the US. These are declining brands because they are already being genericized. Our plan is to launch authorized generics of all the brands that they have registrations and take a significant portion of the market share for these products as a generic, and thus increase the capacity utilization of this facility.

Nitin Agarwal: What is the size of the opportunity that we are going to be targeting in terms of these authorized generic launches?

GV Prasad: I do not want to share that level of detail.

Nitin Agarwal: Okay, fair enough, thanks so much.

Abhay Shanbhag: Sir, regarding the India market price actions that you indicated, we haven't heard any other company do it so, is it only some discounts on a market for a particular quarter or the price action going to continue for a longer period of time?

Umang Vohra: I think we indicated price actions not only what we have taken but also what some of our competitors would have taken for the products that we sell. It was a composite of both, Abhay. The second thing is we do not give any bonus offers, as a practice, we do not do that because we believe it harms the market as well as influences the choice that patients could be compromised with. We have seen the bonus offers from other companies in this quarter have been high.

Abhay Shanbhag: Okay, so going forward, we would expect our growth to turn back to the market levels of 15-18% in the near-term?

Umang Vohra: That is our expectation because we were in nine months at a growth rate of 18%.

Abhay Shanbhag: Next one is on Allegra, you did indicate 25-30% revenue fall with the market going to OTC, is it entirely driven by prices or is generally volumes fall with the product going OTC?

Umang Vohra: It is our understanding that fexo plain volume should not drop. The market may compress a bit because of the pricing being a little lower. I would also add that the innovators are doing a lot of the OTC space as well and that hopefully should benefit the generic companies.

Abhay Shanbhag: One last thing on that, $60 million you talked about on acquisitions, this was for GSK and which was the other one?

Umang Vohra: This was for the Cloderm and the GSK.

Abhay Shanbhag: Okay, thank you.

Girish Bakhru: Yeah, I was wondering if you can give more color on the 20 planned products in the US in FY12, if you have some idea on limited competition products?

Umang Vohra: We cannot give you any product specific information but I think it would be fair to assume that our filings going forward and from what we have been doing in the last two years do have a good mix of limited competition opportunities.

Girish Bakhru: And my second question was on the broad initiatives in the non-tender market in the German region, if we can get some sense on that, there would be potential declines or growth where would that come from?

Satish Reddy: It is a bit too early to talk about those initiatives. We just started on those. So I think once we gain some traction we will start talking about it.

Girish Bakhru: All right, thanks a lot.

Anubhav Agarwal Sir, your receivables days have gone up sequentially. Which geography would they correspond to?

Umang Vohra: Largely the US, also, our API business has done particularly well in Q4 and as a result of that the overall base of the business has moved from about 1,800 crores to 2,000 crores in this quarter. Almost all of that would be the reason for receivables increase.

Anubhav Agarwal: And this intangibles which have increased by $50 million is all attributable to the $60 million you have spent for the Cloderm and GSK penicillin?

Umang Vohra: That would be right.

Anubhav Agarwal: Just a last question on this, on the AOK contract because most of the molecules in this contracts were from the third contract. So the incremental price erosion can you just give us some idea, would it be more than 20% or less than 20%

GV Prasad: It is a sensitive information, we don't want to share that.

Anubhav Agarwal: Okay, thanks sir.

Sonal Gupta: Hi, thanks for taking my question. One was on Cloderm, what is the sort of current size of your US Proprietary Products business and what's the sales force that you have there right now?

GV Prasad: The current revenue is around about $11-$12 million, the sales force is about 40+ people and Cloderm, we should add another $10 million.

Sonal Gupta: Okay, and could you also tell me what is your sales force in India ?

Kedar Upadhye: 4,000 plus, Sonal.

Sonal Gupta: And how much have you added this year?

Satish Reddy: The field force and the managerial staff included, it's about 4,000 plus. Sales force will be around 3,800.

Sonal Gupta: And how much have you added this year?

Kedar Upadhye: We have added about 400 people in Q3.

Umang Vohra: There maybe contract workers also included in this.

Kedar Upadhye: Yeah, so this also includes people on the contractual rolls, Sonal.

Sonal Gupta: Okay, fine, I will get back in the queue.

Sameer Baisiwala: Hi, the target for fiscal '13 sales has now been cut down from $3 billion to $2.7 billion?

GV Prasad: No, we are not saying that the target has been cut down, we said that our current forecast adds up to about $2.7 billion based on the projections we made internally, we are still working towards the $3 billion.

Sameer Baisiwala: I am not quite sure I fully understood why are we not giving any guidance for fiscal 12?

GV Prasad: The thing is that most of our growth is going to come from the North American region. This is subject to regulatory approvals, legal outcomes and all of that. So we are moving away from giving this kind of level of granular guidance because it results in guessing what's going to happen on the regulatory front and that's something that we don't want to do.

Sameer Baisiwala: Would the same not hold true for fiscal '13?

GV Prasad: No, we are giving multi-year guidance based on the certain assumptions, so the 2.7 is what we believe that we have good visibility in terms of long term, but we are moving away from year-to-year guidance.

Sameer Baisiwala: Umang, even though you explained why receivables have gone up but if you just throw some ballpark number on a full year change in sales is about Rs. 440 crores and that yearly change in receivables is Rs. 560 crores, so basically the delta in receivables is far more than delta in sales. So I am not quite sure whether just fourth quarter US sales or API sales could have led to this kind of increase in receivables, is it something more to it?

Umang Vohra: No, so let me explain that, most of the increase that you have seen in terms of absolute sales is Q4, so you have suddenly seen a jump from 1,800 to 2,000 crores between the two sequential quarters and growth for the full year before this quarter increase was only about 3-odd percent and after this quarter increase we have shown that the growth has gone up by 6% on a full year basis. So even if you take our average DSO at a company level is about 80 days to 90 days, you add that, almost all of the increase that happened in Q4 should logically be completely in receivables, that's one. Second, the late launch of Fexo-Pseudo also almost entirely added to it. So API, Fexo-Pseudo the increase is there, have added to it, also the Russian season finished in Q3 and some of those receivables are probably still outstanding.

Sameer Baisiwala: Okay, so which means that receivables should unwind in the next quarter or going forward because few of these reasons would not have…

Umang Vohra: That's right, that's right.

Sameer Baisiwala: Okay, thank you so much.

Harsh Mehta: Congratulations for giving good set of numbers. I just wanted to check on the Fexofenadine plus Pseudoephedrine, what is the value of this product in the total sales for quarter and on the profit?

Kedar Upadhye: Harsh, we don't disclose product specific revenue and profit numbers.

Harsh Mehta: Okay, and can we expect that to continue in next quarter?

Umang Vohra: Disclosure or the product?

Harsh Mehta: The product?

Kedar Upadhye: As we explained this product has converted from Rx-to-OTC there is a switch which has happened for this product and all our inventory in US has been liquidated so we don't expect the Rx version of this product to continue in subsequent quarters but we do expect our approval of the OTC from the coming quarter.

Harsh Mehta: So this exclusivity value may not come again, something like that?

Kedar Upadhye: Yes.

Harsh Mehta: Okay, okay sir thank you.

Saion Mukherjee: Yeah, hi, thanks for taking my question. First on FY13 number of 2.7 billion, what would be the top two or three risks that you are seeing to achieving this number because that's a very steep ramp up from the current levels?

GV Prasad: I think we have addressed whatever risks are within our control like manufacturing, capacities, and the supply chain, all of those. The risks which are not in our control like approval delays, certain legal outcomes, these are things which could affect the number.

Saion Mukherjee: I mean, so it appears that uncertainty is largely related to the US market?

GV Prasad: Yeah, the major growth is coming from the US market.

Saion Mukherjee: And I remember like you mentioned that one third of your revenue is from North America so it's like 900 million is what approximately we are aiming at in North America in the next two years?

GV Prasad: Yeah.

Saion Mukherjee: Okay, thanks, and the second question is slightly on a longer term basis because if you can help us understand the trajectory on R&D investments, CapEx, because we are seeing a very high level of CapEx than what we anticipated. So if you can take us through the thought process, how the company is preparing itself beyond FY13 and anything on the M&A front that excites you at this point, if you can just take us through the investment trajectory over the next two to five years?

GV Prasad: So if you look at capital investments, they are happening in multiple areas. We are building in SEZ which has both API component to it as well as a finished dosage component to it, and that's a significant investment. We are also adding capacities in some of our existing plants and creating additional capacities for the products in production already. Then we are building a biologics facility, which will address the scale up as well as manufacture of clinical trial batches for regulated markets. And apart from this we are looking at small size acquisitions that you saw a couple of them last year. We are not looking at anything major right now. But the size that you saw $30 to $50 million range, things which will help us deepen our presence in key markets is something we are looking at on an ongoing basis. Beyond that it would be hard for me to give you more color on M&A or anything else.

Saion Mukherjee: Sir, basically this CapEx that you would be doing for next two years will be primarily for meeting the requirement beyond FY13 ?

GV Prasad: Some of them even go beyond FY13, they go to FY15-16 also. So it's not only FY13 but even for growth beyond that of that we are creating capacities as well as capabilities.

Saion Mukherjee: So will it be fair to assume like in FY13 also we would see Rs. 800 – Rs. 900 crores kind of CapEx number?

GV Prasad: FY12 we will see but FY13 maybe not at that level.

Saion Mukherjee: Okay, it may come down, okay, thanks a lot and all the best.

Ranjit Kapadia: Congratulations for good set of numbers. My first question is related to supply deal with GSK, if you can give some update on that. And the second is the outlook for the domestic market how you see, because this quarter some aberration was there, so going further how you see the domestic market?

Satish Reddy: I think we have already answered on the domestic market, but just to say that it is an aberration and we expect it to revive in the first quarter, that's about the domestic part. Now as far as GSK alliance is concerned we have registered quite a few products through the alliance. And sales have already started, but it's still some of the quick wins that's what you see in the market right now, but the other ones especially when Glaxo launches in the larger markets like Mexico, Turkey, Brazil, in those kind of big markets and then if you give it a year after that that's when you see more substantial sales.

Ranjit Kapadia: Do you expect anything in this year or next year from GSK supply, any revenues are expected?

GV Prasad: Small revenues

Satish Reddy: There are small revenues already, but all I am saying is in terms of something meaningful addition to the revenues, I am saying give it a little bit more time than that, maybe a year and a half, two years.

Ranjit Kapadia: In FY13 can we say that something would come substantial?

GV Prasad: It depends on what you call substantial, it will certainly be in the tens of millions range.

Ranjit Kapadia: Okay, and if you can give some update on the balaglitazone if anything is to say?

GV Prasad: Theirs is no new information.

Ranjit Kapadia: Okay, thank you very much, and all the very best.

Krishnendu Shah: Just one question on the R&D side, how do you see that going ahead in sense increasing, the R&D expenditures more for innovative or biological products that's one, and number two is, do you see a 10%-15% growth in that going ahead?

GV Prasad: So, there is an all round increase in R&D, not just proprietary products or biologics. There has been a significant amount of ramp up in the Global Generics itself and there is some external R&D work that we are doing in further generics business for some niche products and then there is some element of investment in clinical development of differentiated formulations as well as NCEs. Biologics have gone up but not that significantly.

Krishnendu Shah: Sir going forward like FY12, FY13 and all, because you are getting into Phase 2 and Phase 3 and there the biologics….?

GV Prasad: See, we are calibrating our investment into risky R&D based on the portfolio. We are backing some significant flagship assets, other assets we are partnering, so it's not a straightforward ramp up.

Krishnendu Shah: So, sir, we can expect the same kind of percentage of R&D expenditure going ahead?

GV Prasad: Yeah, it could vary a point here and there but in that magnitude.

Krishnendu Shah: Okay, thank you.

Prakash Agarwal: Yeah, good evening, my first question is on the PSAI segment, we saw a good growth for the fourth quarter but just wanted to have a sense in terms of is this the growth rate we could expect for next year as well taking fourth quarter as a base?

Satish Reddy: There are two components to this side, so one is on the API side of the business. So here again there are product launches that take place and as and when the customers pick up those launched quantities, that's when you see the sales start spiking up, so it will be difficult to say quarter-on-quarter on what would be the growth rate and how you can meet it, that's one component. The second one is the services side of the business, which did not perform well for the last year and that's something based on the number of new projects and the new business that we build with customers that will start seeing a more gradual ramp up in our sales. So, we cannot specifically take the Q4 as the base for that growth rate.

Prakash Agarwal: And the mix of APIs two-third of the PSAI or one-third?

Umang Vohra: More than two-third.

Prakash Agarwal: Okay, and the growth was largely led by the European markets while we saw, I mean the huge patent expiry is expected in the US market so is there any specific one-off which has happened in the Europe market or do we see all round improvement in various markets for the API?

Kedar Upadhye: Yeah, it's a mix of everything, Prakash.

Prakash Agarwal: Right and next question on the tax rates, I mean you said because of the budget thing we have got a lower tax rate of 11% but R&D would continue for the next year and do we see a similar tax rate going forward or because of the MAT you would see higher tax rate of 15-16%?

Umang Vohra: So MAT, it would anyway mean that we will have to pay tax as per the prescribed rate by the government. However, next year you could see that our tax rates would be slightly higher than this, but not the MAT rate, as one would see.

Prakash Agarwal: So 15-16% would be a fair guess?

Umang Vohra: Around that range would be roughly correct.

Prakash Agarwal: On the land sale that you did, any details there any do you have similar land parcels which could result in future land sale?

Satish Reddy: No, it's just excess land in Mexico plant, which we sold, so we are not in the business of selling land parcels.

Prakash Agarwal: Okay, lovely, thank you and all the best.

Chirag Talati: Two questions really, firstly on the AOK tenders can you let us know what percentage of overall tenders did you win?

Kedar Upadhye: We have won about 17% of the overall tenders, Chirag. In terms of units our wins are approximately 17% of the total molecule bids.

Chirag Talati: On the penicillin front, can you confirm that the current agreement does not force you to buy APIs from Glaxo or their preferred supplier and how do you see yourself being very competitive given the current pricing scenario in penicillin in US?

GV Prasad: Actually, Glaxo pricing for at least one of the ingredients is as competitive as anything out there. In fact certain APIs which are widely available we could always substitute.

Chirag Talati: Okay, there is no contractual agreement?

GV Prasad: No, but there is a contractual obligation for them to supply to us certain ingredients which is not widely available.

Chirag Talati: Okay, great, thank you.

KC Suri: Yeah, thanks for taking my question. In response to the earlier query regarding R&D you mentioned something about an external R&D for Generics for the niche products. Could you throw some more light on what do you mean by that?

GV Prasad: We are working with other companies which have niche capability in areas that we don't have. So these transactions involve some investment and paying for the research cost and link to milestones in terms of outcomes. I don't want to give you any color on the specific product opportunities, because that's sensitive information from a competition point of view.

KC Suri: Right, but I mean those would essentially be your products co-marketed or their products and you are just helping them on it?

GV Prasad: Depends on the transaction but largely these are development houses. They don't have marketing so we will market the products, and we will give them a portion of revenue or royalty or a combination of that.

KC Suri: Okay, and in your R&D pipeline what percentage of your products to be launched ahead would be products which are difficult to replicate or limited competition products, I mean of course you have given the number on the first-to-files and the Para-IVs?

GV Prasad: So it's very difficult to give an answer to your question because certain products which we think are very difficult to end up with multiple filings sometimes, so I really don't want to hazard a guess there.

KC Suri: Okay, thanks, sir.

Jorge Mauro: Just a quick question regarding the base case scenario of $2.7 billion by FY13, how much of these should we assume as recurring versus one-off kind of revenues, could you share that?

Umang Vohra: So I think since several launches in FY13 as is with any particular year you would have to smooth it out to come to a conclusion on how much is recurring. So, good way to do that would be to take some kind of averages. We cannot give you that product level information though we do think that that target would sit in and probably grow beyond FY13.

Jorge Mauro: Okay, thank you very much.

Rahul Sharma: Could you give us market shares of Prevacid, Lotrel and Accolate?

Kedar Upadhye: Rahul, on an offline basis, we will provide the numbers to you.

Rahul Sharma: Okay, thanks.

Bino Pathiparampil: Hi, just a follow up question on Allegra D-24, what is the latest timeline looking like for approval and post approval, how will the ramp up be, will it be something similar to what we saw in Prilosec OTC?

Umang Vohra: The answer to the second part is we hope it is a little similar to Prilosec OTC but we do not know which way it is going to go because it's a little different kind of a product. I think we are still awaiting as we have indicated earlier an approval to launch the product OTC.

Bino Pathiparampil: Right, and the sequential growth in Q4 in US business, is it fair to assume that it is mostly Allegra D-24 driven?

Umang Vohra: No, there are other products as well, there is an effect of Lansoprazole, there is an effect of zafirlukast there is a continuing growth of Tacrolimus so there are several other products other than just the Allegra which has led to that increase.

P. Srihari: We just read a report in Business Standard that you know, Dr Reddy's in the race to buy Doktor Mom from JB Chemicals. Would you want to comment on it?

GV Prasad: No, we don't want to comment on this because it is merely speculative information.

P. Srihari: Okay, you said you are looking at taking over some companies or small portfolios in India, I mean is that correct?

GV Prasad: We didn't say that in India.

P. Srihari Okay, worldwide, right?

GV Prasad: Yeah.

P. Srihari Okay, thank you.

Nitin Aggarwal: I just want to get some thoughts on the Rx-to-OTC business in terms of our experience over the last few products? And how do we see our competitiveness really speaking when we look at Allegra and probably some other products that come down the line because earlier we talked about a comprehensive start other this Rx-to-OTC business being like a big component of the US growth strategies going forward?

GV Prasad: I don't think it's a big component but it's a significant component. The business is attractive from a margin perspective. It has certain dynamics such as variations and varieties in packaging. So we do have a local packaging of contracted operation in the US and that adds some supply chain complexity, the build-up of market share is slower than ethical prescription product generic. But overall, it is sticky and the business is good. It's not a very crowded market. Of course, the margins are slightly lower than the prescription generic products business.

Nitin Aggarwal: On Prilosec, I mean how it is really track being on that, how does that measure that in terms of what is our market share we would be able to get in the private label market on the product?

GV Prasad: Actually, we are conformable with our performance there, it's quite good. I don't have the market share numbers immediately.

Umang Vohra: We would probably say that it is among the top three products that we have in the US and we are quite comfortable with where it is. I think in the last six to seven months we have really increased our sales in share.

Nitin Aggarwal: But you are still growing that product or the product has reached a stage where it is going to saturate out at this levels?

Umang Vohra: We are still growing it.

Nitin Aggarwal Thanks very much.

Kedar Upadhye: Thank you all for joining Dr Reddy's senior management for this Q4FY11 earnings call. In case of any queries please feel free to get in touch with the IR desk, we will be happy to resolve those queries. Thank you and good bye.

Note: Necessary edits have been made in this document to correct for any factual inconsistencies.