Dr. Reddy's Laboratories Limited
Q4 and Full year ended March 31, 2012
Earnings Call Transcript

Kedar Upadhye *(Investor Relations)*

Good morning and good evening to all, and thank you for joining us today for Dr. Reddy's Earnings Call for the fourth quarter and full year ended March 31, 2012. 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. The discussion and analysis in this call will be based on IFRS consolidated financials.

To discuss the business performance and outlook, we have today G.V. Prasad – our Chief Executive Officer; Satish Reddy – our Chief Operating Officer; Umang Vohra – our Chief Financial Officer; Abhijit Mukherjee – President & Head of Global Generics and the Investor Relations team. Please note that today's call is copyrighted material of Dr. Reddy's and cannot be rebroadcast 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 the webcast. After the end of the call, in case, any additional clarifications are required, please feel free to get in touch with the IR team.

I also wanted to inform you that a new member, Saunak Savla has joined our Investor Relations team and his contact details are available on our website. Now, I would like to turn the call over to Mr. Prasad for his opening remarks.

***GV Prasad** (Chief Executive Officer)*

Thank you, Kedar. Good morning, and good evening to all of you. I welcome you all to our quarter four earnings call.

I am pleased to mention that we have ended fiscal 2012 by crossing the $2 billion mark in sales, at our average billed USD – Rupee rate. And we are the fastest Indian pharmaceutical company to do so. The strong performance this year was mainly on account of the contribution by our US Generics business, the API business and Russia. In India, we continue to target enhanced field force productivity as well as improvement in the prescription share of key brands. I am confident that our India business will now grow at industry growth rates for the next year. Other emerging markets performance also was healthy on the back of increased focus in South Africa and Venezuela. In addition, the Pharmaceuticals Services and Active Ingredients segment performance was very encouraging. Apart from the strong recovery in sales, this segment has supported the surge in volumes of internal requirements for our Generics segment, thereby providing competitive cost position for our various markets.

I am happy to see a few emerging themes shaping across the organization this year. The OTC franchise in US and Russia / CIS markets have been a success story in a quick span of time. OTC has been an important lever in risk diversification in Russia, and now constitutes about 30% of sales in our portfolio in Russia. In US for FY12, the OTC business was 25% of overall US sales and helped us strengthen our market presence. In the Indian market, we are in the pilot phase with a couple of OTC products, and depending on the outcome of this experiment, we will expand this initiative.

The second theme which has shaped up well over the last couple of years is our limited competition product portfolio in US. As we have been indicating in the past, we have consciously oriented our Generics R&D efforts towards more complex molecules. We are now beginning to see meaningful revenues from this pipeline. Among the top five limited competition products, tacrolimus, lansoprazole, omeprazole magnesium OTC, fexofenadine basket and fondaparinux, the revenues are in excess of 10% of the overall company's revenues. We have plans to expand this basket further to grow faster in the coming years.

On Proprietary products, a lot of good work has gone in the recent years from product selection and development. However, an early read of the trial results for the Terbinafine nail lacquer were not encouraging. We now plan to drop the product. We have a series of mid-stage assets poised for

pivotal registration studies and a large pipeline of preclinical assets in the areas of pain and dermatology, which we believe can produce steady stream of IND filings for several years.

In the Biosimilars space for emerging markets, we are seeing good progress in filings as well as building alliances with local partners. This year, we filed four of our products across 15 countries in the emerging markets. We are confident to expand our emerging markets franchise further in the coming years.

In the regulated market space, we have remained very focused on our development strategy. While we concluded FY12 with strong revenue and profit growth, the last two quarters have set a strong foundation for FY13. The next fiscal year is one of the most interesting years for the company, as we expect to launch a number of new products, as well as scale up volumes of key products in our current portfolio. With this, I would like to conclude my section and hand over to Umang to discuss the financial performance of the company.

***Umang Vohra** (Chief Financial Officer)*

Good morning and good evening to everyone. Let me begin with the key financial highlights. Just as a reminder, all the numbers including those of the previous year in my section are converted at the convenience translation rate of Rs. 50.89 to the dollar. Discussion in Satish's section will be based on the performance in respective markets' local currency.

Our consolidated revenues at the convenience rate, registered a figure of $1.9 billion and a strong growth of 30% over the previous year. Revenues for Q4 are at $522 million and they grew by 32% YoY. Revenues from our Global Generics segment are at $361 million for the quarter and grew by 30% YoY, driven largely by the US and Russia. Revenue from the Pharmaceuticals Services and Active Ingredients segment (PSAI), are at $147 million and recorded an impressive growth of 35% driven by new launches to all the other generic customers.

In this quarter, revenue share from Teva under our partnership for distribution of Olanzapine 20 mg was below $2 million. The actual generic substitution rate for Olanzapine did not cross 80% during the exclusivity period on account of competitive dynamics vis-à-vis our earlier estimated rate of 90%. In view of this lower generic substitution rate and the higher stocks held by trade channels, our revenue share in the current quarter has been lower due to the accounting implications of shelf stock adjustment.

Consolidated gross profit margin for the quarter is at 53%. Gross profit margin for Global Generics and PSAI are at 58% and 38% respectively. SG&A expenses including amortization for the year are at $567 million.

SG&A expenses for the quarter are at $142 million and show an increase of 18% over the previous year, largely attributable to higher manpower cost, distribution cost and the effect of rupee depreciation. Sequentially, over the third quarter, SG&A expenses have largely remained flat.

There were triggering events in the German market during the quarter relating to the reduction in the reference prices and additional tenders at low bid prices, which required us to test the carrying values of intangibles on our books. Accordingly, since the expected recoverable value from these assets in Germany was found to be inadequate, we have recorded a non-cash impairment charge of approximately €10 million net of tax.

EBITDA for the current year is at $499 million, 26% of sales and it has grown by 51% over the previous year. EBITDA for the quarter is at $134 million. It comes in at 26% of sales and shows a growth of 34% over the previous year.

The effective tax rate for this year at 23% includes a tax benefit on the impairment charge on intangibles. However, this charge is offset by the change in assumption of Olanzapine revenues, which in turn impacted the mix of profits among our subsidiaries, resulting in a higher tax rate. Our tax rate without Olanzapine would closely be around the 20% range.

Adjusting for the interest on bonus debentures and impairment of intangibles, profit after tax for the year is at $301 million, 16% of sales and shows YoY growth of 42%. Similarly, adjusted profit after tax for the quarter is at $83 million, and has shown growth of 38% over the previous year.

Key balance sheet highlights are as follows: Our working capital increased by $196 million and is largely in line with the increase in sales and its mix across the markets. Capital expenditure for the year was at $169 million.

Foreign currency cash flow hedges for the next 18 months in the form of derivatives and loans are approximately at $609 million, largely hedged around Rs. 49 to Rs. 50 to a dollar rate. In addition, we have balance sheet hedges of $274 million. Our mark-to-market losses and our hedge reserve account in the balance sheet on account of the cash flow hedges are approximately $36 million, and this is a figure which will be spread over the next 18 months if the dollar rates stay the same as they are at the current moment. Net debt at $276 million represents a net debt-to-equity ratio of 0.24.

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

***Satish Reddy** (Chief Operating Officer)*

Thank you Umang. I will now cover the business highlights for each of our key markets starting with North America Generics. Revenues for the quarter are at $176 million, reflecting YoY growth of 36%, largely driven by products such as ziprasidone, fondaparinux, amoxicillin and clavulanic acid and products from our Shreveport facility. Base business was also healthy across our key products such as lansoprazole and omeprazole mg OTC. We are pleased to see the planned improvement in the volumes of fondaparinux leading to higher market share in the current quarter and we expect expanded market share in the coming quarters.

Our revenues for the year are at $671 million for North America, which is a YoY growth of 62% and this demonstrates the strengthened portfolio momentum and healthy market share position. We expect to continue this momentum for the next year with some very interesting product launches. During the year, we filed 17 ANDAs, and cumulatively, we have 80 ANDAs pending approvals with the USFDA, out of which 41 are Para IVs and 7 are First-to-Files.

Moving on to India. Revenues for the quarter are at Rs.320 crores or $64 million, which represents YoY growth of 16%. The growth was driven by volumes across most key brands and also reflects the growth on a low base compared to the previous year. We are happy to see a gradual improvement in our performance over the year and this is in line with our expectations. Revenues for the year stood at Rs. 1,293 crores or $270 million, which is a growth of 11% over the previous year. Our Biosimilars portfolio grew by 33% over the previous year. During the year, we launched 23 new brands in India. We are confident that we will be able to deliver the market growth rate next year on the back of a healthy volume growth in our key brands and new product introduction.

On Russian market, with revenues of $57 million, the growth in Ruble terms was 23% over the previous year. The growth in this quarter reflected a strong recovery from the challenging growth in the third quarter. Growth for the quarter continues to be driven by volume increase across key prescription brands and OTC portfolio. Revenues for the year at $230 million represent a 15% YoY Ruble growth. Our growth as per the Pharmexpert market research agency for the year in Ruble terms of 21% and a market rank of 13 compared to the industry growth rate of 17%. OTC which represents 29% of our sales grew by 32% over the previous year.

Talking about Europe Generics. Revenues at €27 million for the quarter, represents YoY decline of 16% over the previous year. Revenues for the year at €125 million, also represents a decline of 10%. This decline was largely due to the tender price pressure in the German market.

Moving on to the PSAI business. This year has seen a phenomenal growth story driven by significant new product launches on the back of many patent expiries. Revenues for the quarter are at $149 million, representing a growth of 23%. Revenues for the year at $497 million grew by 16% over the previous year. The impressive growth during the year was led by new launches to generic customers and strong recovery of customer orders in the Services segment. We expect this momentum to continue in the short-term on the back of more such launches. During the year, we filed 68 DMFs including 14 each in US and Europe. With this the cumulative filings stand at 543 globally.

With this, I would like to open the call for questions now.

Anubhav Agarwal: Your gross margin for Global Generics segment, at 58% is much lower than what was there in the first half at 63%, so was all the decline driven by shelf stock adjustment on olanzapine? Because this is despite the benefit from Geodon® in this quarter.

Umang Vohra: The way we are looking at our gross margins is that there are some adjustments which relate to SSA that's definitely had an effect on gross margin. The other thing that we are seeing on gross margin is that the relative mix of the businesses is also different. So, for example, India is slower in growth than the US is and in the US gross margin is slightly lower than India, because remember, gross margin is after plant expenses. So it makes an impact in a different way. But we are not really seeing so much of the compression in margins as what you are alluding to.

Anubhav Agarwal: So other than that, on the base business margin you are saying that your gross margin continues the trend that you were doing in the first half of this year?

Umang Vohra: That is right. We are largely in the same range as what our margins in the first half of the year were. You might want to also take into account, the fact that DEPB and other export benefits have gone off, and that is taken an impact on the margins. Other than that, we are largely in the same range.

Anubhav Agarwal: And just one clarification on the press release. On the call you mentioned that your FTFs are at 7 now. If I understand it was 10, and after that you launched olanzapine and Geodon®, so where is the 1 FTF gone?

Umang Vohra: We can send that to you.

Bhavin Shah: I just want a sense of the market share gain in fondaparinux. If you could give some highlight on the institutional product launch which was supposed to happen. How is that progressing?

Abhijeet Mukherjee: So broadly, on fondaparinux revenues if you look at the year, in the first half the capacity was a bit of a challenge. All that is behind us and we are waiting for the capacity adequacy to come on stream. So right now, we are well poised and at the moment, the IMS data shows our market share about 22%.

But we are mainly playing only in the retail market, which is about 45% of the whole market. So, although our share of the retail market is nearly about 50% market-share. Now going ahead, yes, there will be a hospital play, but these contracts are multi-year. So, as and when we have an opportunity and better opportunity we would be getting more market share.

Bhavin Shah: And any sense on the Biosimilars, how much would that give India business right now?

Umang Vohra: 7% for this fiscal.

Bhavin Shah: 7% for this fiscal?

Umang Vohra: Yes.

Prakash Agarwal: On this pipeline for North America, are you saying that you have interesting product launches? You shared a presentation, I could see in the website for December 2011. Could you give us some key products for FY13?

Umang Vohra: We are not going to be product-specific. All we are going to say is there are some products which are not in the presentation as well, but largely, it is our opinion that whatever is in the presentation, is more or less figured out by the market. So, there are some products which are not in the presentation, but right now, we are not in a position to disclose those.

Prakash Agarwal: And would you share market share of your top five products that you talked about having 10% of sales in the US?

R Raghavender: On Lansoprazole, we have 15% market share of the total market. On Fondaparinux, it is 17%. Omeprazole 14% and on Tacrolimus it is about 12%.

Prakash Agarwal: And Fexo?

Abhijeet Mukherjee: Roughly it is in the range of about 40%.

Prakash Agarwal: 40% of the total Fexo OTC market?

Abhijeet Mukherjee: Yes. And the combination, we are the only player- it is smaller asset.

Prakash Agarwal: And Lanso OTC is scheduled to launch in fiscal 13?

Abhijeet Mukherjee: Yes very soon.

Girish Bakhru: Just on the US again, earlier, you had commented that a large chunk of the FY13 target probably will be met by US, so if you just can give some color from $70-odd-million, are we close to like touching some $900 number, what kind of number can we look for US for FY13?

Umang Vohra: We had largely said that we would have this one-third or thereabouts for the US market of our total $2.7 billion, which we had directed towards. So, we are looking at the same number as of now. And the other one-third is going be from the emerging markets and other areas.

Girish Bakhru: And just to carry this ahead, in terms of patent cliff hitting us, where do you see that kind of effect coming in full effect. FY14, would it be stable revenue, or will it be kind of a big decline there?

Umang Vohra: The real cliff begins to hit in FY15. FY14 is relatively stable, but FY15 and onwards from there is when the real impact of the cliff will hit us.

Girish Bakhru: And second one on the Biosimilars earlier, there was a comment that we are planning to probably see registrations in some of the emerging markets. Can you just elaborate on that?

Satish Reddy: On the Biosimilars, we had almost four products which we registered in close to 15 countries. So this will be the local partners in these countries- we have some alliances. So they get launched at different points of time.

Girish Bakhru: And where are we in terms of tying up on the European market side? Given that there has been probably first filing on the monoclonal antibodies recently in Europe, so where are we in that.

G.V. Prasad: We have spoken to the regulator. We are designing our trials for but we still have not signed any partnership deals.

Sameer Baisiwala: This is referring to Terbinafine, the Derma product. Can you be more specific, what were the reasons that you had to drop this candidate and how much money was spent on this development?

G.V. Prasad: The total plan was to spend about $8 million or so on the clinical development. We have spent about a little over half of that. The initial data does not indicate that it will meet the endpoint on efficacy, so we decided to drop the product.

Sameer Baisiwala: And can you share some more details on the follow-up compounds/ candidates in the same delivery based pipeline?

G.V. Prasad: We have not yet shared these details. As they go further we will share with you the pipeline for the dermatology business. So we have not made anything public yet.

Sameer Baisiwala: Is there anything which is in the human trials or a little bit more advanced stage or they are all pre-human right now?

G.V. Prasad: There are some in the early human trials going on in the derm space. Some of them have completed proof of concept, but nothing has entered Phase III yet. So, we will keep you informed as we move assets forward.

Sameer Baisiwala: And for the pain?

G.V. Prasad: Same story on the pain, we have products which have completed proof-of-concept, not yet entered Phase III.

Sameer Baisiwala: Can you share something about your outlook for fiscal 14 over fiscal 13? Just qualitatively, any color?

G.V. Prasad: So the growth rate of the Fiscal 12 and 13 are very high. We do not expect FY 14 to be so strong. We expect a slowdown on the growth, but we still expect to grow on FY 13.

Ranjit Kapadia: My question relates to this impairment charges which have you taken of Rs.1 billion for Germany. If you can elaborate how the German market and what is the future outlook for the market?

Umang Vohra: These charges relate to certain product intangibles, which have gone into tenders and therefore we believe that the recoverable value of these product intangibles is possibly not going be met. Because not only are our tender prices low, if you lose the tender, it is going to be difficult to recover these values. So, this is tested and we found that this was not recoverable, so we have taken a non-cash charge on it.

Ranjit Kapadia: And how do you see the German market shaping up?

Abhijeet Mukherjee: The tender compliance is actually very high at the moment, higher than what we thought. Higher the tender compliance, it has a hit to the extent that some of the tenders are based on revenues. Given that fact, it is tough, the molecules are quickly being drawn into tenders faster than it used to be in the past. So, it's going to be a tough scenario in the German market, but having said that, it is in the single digits percentage of the Global Generics business.

Chirag: Two questions. First is on a quarter-on-quarter basis in your US Generics business, what would have changed outside maybe the fondaparinux market share would have gained marginally. But otherwise, the biggest delta is only from ziprasidone? Would that be a fair way of looking at it?

Umang Vohra: No. that is not the complete story. Ziprasidone is some part of our revenues there has been good market share expansion on the Bristol products. There has been also revenue increases in other products as well.

Chirag: On a quarter-on-quarter basis?

Umang Vohra: That's right. On a quarter-on-quarter basis, the delta that you are seeing between Q3 and Q4, Zipra would be less than half of that delta.

Chirag: The other question was on the 7 First-to-Files that we have. Can you indicate the brand size of it?

Umang Vohra: We can send it to you.

Hardik Bora I just want to know - what is the revenue contribution from GSK Bristol facility, if it is possible.

Umang Vohra: The Bristol facility- there has been a ramp up in values there and it is sub-10 million for this quarter.

Hardik Bora: This is pertaining to the impairment charges that we have taken on product intangibles. I just wanted to understand what are the current intangibles that are standing on the book?

Umang Vohra: We have a brand, which is approximately €40 million and we have product revenue intangibles, which is approximately another €15 million to €20 million at a net level. And most product level intangibles are now in groups of products and not specific products.

Hardik Bora: If you can just throw some light -since it has been sometime since the ziprasidone launch, what is the price erosion and market share that we have so far garnered in that product?

Umang Vohra: The market share is about 24% to 27% that is the range that we have picked up. And price erosion is in excess of approximately 75%.

Bhagwan C: A clarification - I was listening on the TV interview today in the evening that the OTC products of Russia and the USA combined has contributed approximately $200 million. Out of this, Russia 100 million and US 100 million, is that right?

Kedar Upadhye: No. Russia is around $70 million and US is around $130 million.

Bhagwan C: Combined it is $200 million?

Kedar Upadhye: Yes.

Alok Dalal: Any update on the import alert at the Mexico facility?

G.V. Prasad: There is no specific development as such, but we had an inspection by the USFDA, we believe it went well. Now, the FDA has to submit their report on the inspection and after that the import alert will possibly be lifted. Right now, there is no update as such.

Alok Dalal: Any comments on the GSK alliance? Is it going as per expectations or there is some delay here?

G.V. Prasad: There is some delay in terms of revenues, but we did not expect any revenues in these 2-3 years. It is going to be a long-term business. Some of the products are just being developed. They have to get approved. We did not have high expectations and they do not figure today in our revenue in a significant way.

Alok Dalal: And what could be the tax rate guidance for FY13? Is it 20%?

Umang Vohra: Yes, approximately that number.

Alok Dalal: What would be the R&D guidance?

Umang Vohra: We are maintaining R&D up to 7% of sales.

Sonal Gupta: I just wanted to know, are you still sticking with the $2.7 billion target given how the currency, etc., have moved?

G.V. Prasad: We are not specifically giving any revenue guidance. $2.7 billion is what we think directionally is possible. This is dependent on approvals on time, launches on time, so there are a number of different factors. So I would not point you to a specific number. Broadly, we are comfortable with that growth rate that we had this year about 30%. We will be in similar growth rate. That does not mean $2.7 billion is a number which we are guiding you now.

Sonal Gupta: And just wanted to check up whether you are still confident of day 181 launch for Lipitor® for yourself?

G.V. Prasad: We still do not have approval and it depends entirely on approval.

Chirag Talati: This is regards to your Promius Pharma in the Dermatology portfolio. When is the earliest that we can see a candidate entering Phase-III? And is it correct to kind of know that you will not be able to launch anything from your internal pipeline before 2016, 2017 now?

G.V. Prasad: Yes. That is a fair estimate. But, it could happen earlier maybe a year earlier, but 2016 is a good time frame to think about. We should have a Phase-III asset sometime this year.

Chirag Talati: Would you like to comment on what kind of candidate is it? Is it a reformulation? Or what indication it is targeting?

G.V. Prasad: Dermatology and reformulation.

Chirag Talati: And secondly, on the Penicillin's portfolio, data does seem to indicate that you had a very strong pick up in market share in Q4 on the products you have launched. So what is the kind of revenue that you would have seen in Q4? Is it tracking your $60 million annualized guidance that you had provided at the beginning of the year?

Umang Vohra: It's about there. Like marginally short of $60 million, around that range.

Chirag Talati: So, in this quarter, we would have seen a positive contribution coming from the GSK plant in terms of gross margins?

G.V. Prasad: Right.

Abhay Shanbhag: Yes, just wanted to check up on Zyprexa®. What was the issue? Because it was only Teva and you sharing all the products. So was it innovator who was very aggressive not allowing the Generics to take market share or what was it?

G.V. Prasad: If I may guess, there are a couple of factors. This is a CNS drug. CNS drugs do not completely switch. Many patients do not like to switch CNS drugs. That is one dynamic at work. There was an authorized generic which is inching the market share. So, it is always market share, pricing dynamic that is clear, and Teva has done a good a job as anybody else out there.

Abhay Shanbhag: And are there any implications for other Para-IVs, going forward that is it only restricted to CNS where the market share gains are much more difficult?

G.V. Prasad: It is very difficult to enforce on one launch and extend it to every launch. So, yes, the dynamic depends on how deep the discount is from the innovator, what kind of a category in which the products are launched. So I do not want to hazard a guess and say this is a trend or not a trend.

Abhay Shanbhag: And another thing was Watson did indicate announce on its conference call that there could be a 96% price erosion on atorva on the 181-day. Would that be too aggressive an assumption or too conservative assumption?

Umang Vohra: It could be both. Cannot comment on it right now.

Abhay Shanbhag: And you are not even saying whether the launch would happen because you said it would depend on the approval timelines?

G.V. Prasad: Yes, we are ready to launch if we get approval on time.

Abhay Shanbhag: One last question is on Europe, this pricing environment, do you see some sort of stability coming in Germany after 4 to 5 years or do we see these sorts of erosions continuing?

G.V. Prasad: There must be an end to this, it has to stop somewhere. As a vertically integrated company, as we select products carefully, we will be competitive in this game at some point, we have not reached that point yet. We are working towards rebuilding our product portfolio for this market and we continue to believe that we can make a difference in this market and be a significant player.

Abhay Shanbhag: Okayand Russia, the pricing rate still recently stable, so there is not much of a threat in that market?

G.V. Prasad: It behaves like a typical branded market.

Abhay Shanbhag: And there are no talks, what happened to Germany, any reforms or whatever taking it towards tender or towards any other form of successful reform there?

Umang Vohra: Not as yet.

Vivek Agarwal: Revenue from Germany declined by 15% in local currency largely due to continued tenderization of German markets. Whether this phenomenon is going to impact on top-line and bottom-line in upcoming quarter?

Umang Vohra: So if it continues to decline it would have some impact on both the lines. But, it is only less than 7% of our company sales today.

Hitesh Mahida This relates to PSAI space. We have seen 21% growth in FY12. So, is this growth sustainable going forward or will we see a lower growth going forward? And are we seeing traction in the contract research space as well apart from the active ingredients space?

G.V. Prasad: Both the businesses grew at similar rates. Growth in the API business is driven by the large number of products patent expiries in this year and previous year. As long as products these products expire, and we file in time this business is sustainable business.

Nitin Agarwal: Just alluding to the remark that Umang made earlier about FY15 probably being a bit of a cliff as far as the US Generics business is concerned. If you were to take that view, about 1/3rd of the business facing some sort of cliff situation, PSAI is 25% of our business and with the mega patent expiry phase going off. There will clearly be limited growth opportunities for that business. And Germany, we have 5 to 6% of our business. That's nearly 55%

to 60% of our business essentially- we are facing growth issues in the next two years. So where do we see a medium-term growth projected for the business? And what is going to drive it from there on?

G.V. Prasad: The universe is somewhat slowing down. But that does not mean there are not enough opportunities that we can still go after. And the growth rates will come down, but then we are saying that we are still targeting growth in FY14 onwards.

Nitin Agarwal: So when you say there is a cliff situation in FY15, this is with respect to the market.

G.V. Prasad: Cliff does not mean that there are no patents expiring in this year. There is a reduced set of opportunities and if you are clever about how you select your products and how you are going to grow the business, there is still growth possible. There is not going to be a rash of patent expiries, but there are other patent expiries, there are products expiring in the year. There is still an opportunity for us there.

Nitin Agarwal: So you do not see a situation for you, you are hitting a $1 billion sort of a mark in about a year or so and that being a challenge for you to grow sustainably from thereon as far as generics part of the business is concerned?

G.V. Prasad: It is a challenge and we are going to live up to that challenge.

Nitin Agarwal: And lastly, the business base that you hit on Q4 on the top line as well as your EBITDA level, is it a sustainable sort of a base to run with or there is a fair degree of seasonality or one-offs which are there in this number which is there for the current quarter?

G.V. Prasad: There are some one-offs, but this business will have one-offs on an ongoing basis. If you have enough of the critical mass of a pipeline, you will hit regular one-offs in the business. On a year-to-year basis, we should have regular annuities from these opportunities.

Kartik Mehta: If you can update on the launch date or just your view on the upside for fondaparinux in the EU market. And if I heard you right, you said you have 22% of the total market share or 22% of the retail market share for actually fonda in the US market?

Abhijeet Mukherjee: This is the IMS data of April for 23.5%. So I guess to take a view of the global market. But having said that, how much of the hospital is well represented, we have no idea.

Kartik Mehta So this is 22% of the total market in the US?

Abhijeet Mukherjee: This is IMS data.

Kartik Mehta: Yes, and on the EU, your partner had some updates, could you throw some light.

G.V. Prasad: We just filed the product. It is too early to give you a date. We have to go through the revenue cycle and approval and then the launch. The partner just announced the filing.

Kartik Mehta Are you entering with a larger quantity in the US market, is there any timeline where capacity constraint would be less from what it is now?

Abhijeet Mukherjee: As we just mentioned, we have enough capacity for the US market, we have time for the EU market and we are gearing up for that.

Kartik Mehta: No, I was actually mentioning to enter in the hospital part of the US market.

Abhijeet Mukherjee: We have the capacity for both, if we wish to take a part of the market.

Dhiresh Pathak: What would be the gross margin in the German tender business?

Umang Vohra: We do not provide that level of detail, but the margin is probably one of the lowest across all our businesses.

Dhiresh Pathak: Even lower than PSAI?

Umang Vohra: I was talking about the Global Generics businesses. So we do not provide product-specific details, but it will be more or less at par with the business you mentioned.

Dhiresh Pathak: CAPEX has been high in the last two years. What will be the guidance of CAPEX in FY13?

Umang Vohra: We are continuing to see about $150-odd million.

Dhiresh Pathak: And where is the CAPEX going in primarily?

Umang Vohra: Into SEZ plant that we are opening up both for our formulation units into a Biologics plant, so these are some of the bigger CAPEXs.

Dhiresh Pathak: Final question, US OTC would be roughly about $160 million, right?

Kedar Upadhye: It was around $130 million.

Dhiresh Pathak: The bigger ones here would be Omeprazole and Allegra®. Can you give a sense of how much these two are individually?

Umang Vohra: We do not provide product-specific information.

Aditya Khemka: Can you give us some more color on the PSAI segment and the good growth that you are seeing this quarter? How do you see the segment exactly panning out in the next fiscal year and beyond that? How do you see the business panning out from here where it is today?

Satish Reddy: Yes, for this year, it was on the back of good product launches and all that, so that went pretty well. The services segment also revived. So you could probably expect something similar next year, but I would not think specifically talk about the growth numbers.

Aditya Khemka: Going forward, we are seeing good business traction. I understand that as we generate a lot of cash. Do you feel that there are enough inorganic opportunities available in the market you would like to pursue or which you

would like to assess going forward and what is the management outlook on that?

G.V. Prasad: There is no specific answer to this. We are open to acquisitions, but they have to make sense for our strategy.

Aditya Khemka: As a part of $2.7 billion target, any inorganic plans that you would require todo to achieve the target?

G.V. Prasad: No.

Preeti Arora: Just wanted an update, have you launched Boniva® tablets in US?

Umang Vohra: No, not as yet.

Preeti Arora: Any reason why you got late approval compared to the initial players who have come in?

Umang Vohra: We do not have any specific reason on it and we also do not know why we got late approval. But we have not launched as yet.

Preeti Arora: Okay. So should we expect a launch in near-term or is it dependent on the litigation status?

Umang Vohra: We cannot comment on that right now.

Preeti Arora: And just your OTC business, you mentioned $130 million. Was the number for FY11 around $60 million?

Kedar Upadhye: **Around** $60 million.

Preeti Arora: And can you just update us on the Rosiglitazone 180-day exclusivity, what is happening for that?

Abhijeet Mukherjee: There is no market left for Rosiglitazone. So actually, no one has launched. And considering the safety and the REMS program and all these issues, it is not an opportunity anymore.

Preeti Arora: And can you quantify the Clopidogrel 300mg version, how much is that market out worth right now?

Umang Vohra: We can do this with you offline. There is a rough indication that can we worked out based on market size and pricing. Maybe you can speak with Kedar and he will try to help you out with that.

Rahul Sharma: Just wanted a sense on the market share of fexo and tacrolimus and omeprazole OTC.

Kedar Upadhye: We will share these numbers offline with you.

Rahul Sharma: And another thing was on the tax front, I probably did not hear it properly. It is going to be MAT next year or what?

Umang Vohra: We have guided towards about 20%-odd next year at the consolidated level for the company.

Rahul Sharma: And do you foresee further impairment in the German markets coming in next two, three years?

Umang Vohra: I cannot comment on that. I do not know what the situation would be. What we are carrying on our balance sheet now is as a value is close to €65 million, €70 million, that should reasonably support the business.

Chirag Talati: Just a couple of questions. Firstly, what is stopping you or what is hampering your ability to sign a deal on Biosimilars for either for Europe or US?

G.V. Prasad: Nothing as such, we are in discussions. We will announce it when it will happens.

Chirag Talati: And secondly, it is one year now since you acquired Cloderm, can you give a sense of how the sales have shaped up and are you satisfied with the performance? And also, if you think your current level of sales for Promius make it a sustainable entity for the next three years odd?

G.V. Prasad: On your first question, Cloderm has done better than expected. The sales are tracking in $20 million plus. The business is not at a level where it is sustainable yet. We expect it to take another two to three years to attain meaningful size.

Sonal Gupta: It is partly similar to what people have asked there. You would be generating, at least from my calculation, even taking into account your high CAPEX at least about $200 million to $250 million of free cash flow net of dividend. So, just want to understand as to what are the areas which you would sort of look at in terms of potential opportunities? What is your strategic fit?

Umang Vohra: Sonal, we are still a net debt company, and if we do generate that amount of cash, $200 million, we will also net debt at roughly the same level. And so, therefore, I do not believe that while some of the cash can be used for finding some strategic capability fit, we are not going to probably do any big bang acquisitions or anything else with this $250 million. So, it is going to largely be used for funding our operating cash flows or for retiring some part of the debt, and wherever possible we find a strategic fit, we will make a capability acquisition.

Sonal Gupta: And I just want to understand if you take a longer term view, what would be the average maintenance CAPEX?

G.V. Prasad: There is no such thing as maintenance CAPEX because we are growing aggressively. So, we are investing and creating facilities. So $100 million we feel is the continuous investment over the next 3 to 4 years. We are taking the biosimilars capacity ahead of the curve. We are building an injectable plant. We will need more solid oral capability and even their expansion. So overall we are creating new capacities on an ongoing basis.

Sonal Gupta: And just finally emerging markets, including India, Russia would be about 30% of your turnover. Again, are there any plans to consolidate your position in those markets, and maybe would you look at potential M&A in those markets or are you looking for really just a small acquisition?

G.V. Prasad: It is hard to be that specific on the M&A strategy, because it is not just that your intention, it is also the availability of the right fit in terms of becoming available. So, we retain our strategic option, but it is hard to predict what will happen.

Rajesh Pherwani Just wanted to retouch on your guidance, do you still maintain the 25% ROCE guidance that you gave in the past for FY13?

Umang Vohra: We are maintaining that. We have made good progress, we are at 23.5% this year. We are maintaining the 25% guidance. And Prasad and Satish mentioned that we will probably have the same level or higher growth that we had this year. And directionally, we are still moving towards that rate of $2.7 billion.

Ravi Agrawal: So just coming back to the last question, you mentioned growth rate which you expect of around 30%-odd for this year or I guess a number which you said you would be comfortable with. You roughly working with around $2.5 billion, is that the benchmark to look for, for FY13?

Umang Vohra: We are not going to comment on specifics. As we mentioned, we are directionally moving towards the $2.7 billion mark. As we are feeling that growth rate will be higher than what we had this year. We are aiming towards potentially $2.7 billion in that range and we are still directionally going towards $2.7 billion.

Kedar Upadhye: Thank you all for joining Dr. Reddy's senior management for our fourth quarter earnings conference. In case of any additional clarifications please feel free to get in touch with investor relations team.