Dr. Reddy's Laboratories Limited

Q4 and full year ended 2013
Earnings Call Transcript

Kedar Upadhye (Investor Relations)

Good morning and good evening to all of you, and thank you for joining us today for Dr. Reddy's earnings call for the fourth quarter and full year ended March 31, 2013. 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 Satish Reddy – our Vice Chairman & Managing Director; Saumen Chakraborty – President & Chief Financial Officer; Abhijit Mukherjee – President & Head of Global Generics and the Investor Relations team.

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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 investor relations team.

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

Saumen Chakraborty (Chief Financial Officer)

Thank you, Kedar. Good evening and good morning to everyone.

Let me begin with the key financial highlights. For this section, all the figures are translated to US dollars at a convenient translation rate of Rs. 54.52 to a dollar, which is the rate as of 31st March, 2013.

Consolidated revenues for the year were Rs. 11,627 crores. We registered year-on-year growth of 20%. Excluding the $100 Mn profit share from launch of generic olanzapine in previous year of FY12 the corresponding year-on-year growth stands at an impressive 26%. Revenues for the quarter are at $613 Mn, with year-on-year growth of 26%. Revenues from our Global Generics segment are at $414 Mn and grew by 23%. This growth is largely driven by continued progress in North America and Emerging market territories. Revenues from our Pharmaceutical Services and Active Ingredients segments (PSAI) are at $187 Mn with year-on-year growth of 36%.

Consolidated gross profit margin for the year is at 52.1%. Corresponding values for Global Generics and PSAI segments for the year are at 59% and 32.5% respectively. Adjusted for the non-recurring benefit from olanzapine revenues in previous year, our margins are largely stable. Consolidated gross profit margin for the quarter is at 50.4%. Corresponding values for Global Generics and PSAI segments for the quarter are at 58% and 34% respectively.

SG&A expenses including amortization, for the year are at $616 Mn, representing 29% of revenues. Corresponding value for the quarter stands at $160 Mn, representing 26% of revenues. Relative to the previous years, there is a fall of 100 bps indicating operating leverage. The overall increase in absolute terms was primarily on account of normal year-on-year salary increments, the effect of rupee depreciation and OctoPlus acquisition-related expenses.

R&D costs for the year are at $141 Mn, representing 6.6% to consolidated revenues versus 6.1% in the previous year. For the quarter, R&D costs are at $43 Mn, which is a 7% of sales. The increase in R&D expenses during the year was as planned and is in accordance with our strategy to expand our R&D activities across the focus segments.

As we have announced in the month of March, we benefited by an amount of $22.5 Mn from one-time settlement done with Nordion Inc., which is formally MDS Inc. The settlement is toward the damages sustained by us due to their breach of the then existing Laboratory Services Agreement for bio-equivalent studies.

EBITDA for the year is at $510 Mn, which is 24% of sales and grew by 9.5% over previous year. EBITDA for the quarter is at $170 Mn, which is 28% of sales, and grew by 37% over the previous year. Adjusted for the specific events i.e. olanzapine in the previous year and Nordion settlement this year, our EBITDA margin has been stable. In fact, it has gone up marginally.

Profit before tax for the year at $398 Mn is 19% of revenues. PBT for the quarter at $144 Mn is 23% of revenues. The tax rate for the year is 22.6%, which is similar to last year.

Key balance sheet highlights are as follows Our working capital increased by $49 Mn over previous year, and is largely in line with the change in revenue mix across the markets. Capital expenditure for the year is at $123 Mn, out of which the key projects include our injectable facility, SEZ facility and biosimilars expansion.

Foreign currency cash flow hedges for the next 18 months in the form of derivatives and loans are approximately at $480 Mn, largely hedged around Rs. 56 to Rs. 59 to a dollar. In addition, we have balance sheet hedges of $350 Mn.

Net debt at $267 Mn represents a net debt-to-equity ratio of 0.2.

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

Satish Reddy (Chief Operating Officer)

Thank you, Saumen. Good evening and good morning to everyone on the call today.

The fiscal year 2013 in the month of March ended on a somber note with the passing away of our founder and Chairman Dr. Anji Reddy. A profound loss for the organization but Dr. Reddy has left behind a lasting legacy of innovation and achievement that will continue to inspire everyone at Dr. Reddy's.

The financial year 2013 was a peak year for Dr. Reddy's in terms of opportunities for revenue growth and margin improvement. After ending the fourth quarter with the highest ever quarterly revenues to date, we closed FY13 at $2.23 billion, at average realized rate across multiple currencies, which represents growth of 20% over the previous year. For the quarter, we have seen a healthy performance across key territories United States and Emerging markets from the Global Generics segment and the overall PSAI segment. Especially, India which had concerns on growth earlier , I am happy to inform that over the last 6 months we have demonstrated above market growth in a very sustained manner. Through the year, the Global Generics business overall also had its fair share of challenges in terms of adverse market dynamics with price erosions and regulatory constraints that affected new product launches. However, we see a great opportunity for growth in the years ahead, as we deliver on our strategy with complex generics in a focused manner.

Now let me take you through some of the specific business highlights for each of our key markets. Please note that in this section, all references to numbers are in respective local currencies at respective period average exchange rates.

Starting with North America business, revenues for the quarter are at $214 Mn, which represent a healthy sequential growth of 20% and year-on-year growth of 22%. In January, we launched finasteride 1mg tablets with 180-day marketing exclusivity. Currently, we hold around 78% of the market on this product in prescription terms. We expect the sales of finasteride to normalize from the first quarter of fiscal 2014. For Metoprolol, we are now close to 13% of the market share. There has been similar progress for other products as well. Revenues for the year are at $738 Mn, which reflect year-on-year growth of 29%, if we adjust previous year's one-time benefit of olanzapine. While we continue enhancing our portfolio and customer franchise, the headwinds of increased pricing pressure and competitive dynamics remain.

Coming to India business, I am happy to note the specific interventions that we made over the past several quarters in the areas of sales force realignment, brand promotions, etc., have shown the desired results. Attrition, which is one of the key lead indicators is down significantly relative to the previous year. New product introductions have also picked up in terms of productivity of launches. 24 new brands have been introduced and our biosimilars portfolio in India grew by 25% led by the flagship brand of Reditux. On an annual basis, in India, we have registered 13% growth. IMS reported 13.7% growth for Dr. Reddy's as against Indian pharmaceutical market growth of 10.2%. We shall continue our focus towards strengthening our portfolio and identifying niche opportunities.

On the Emerging markets front, Russia continues to be our most important market with revenues of $258 Mn which is year-on-year growth of 27%. Besides Russia, the markets of CIS and the Rest of the world contributed $154 Mn with year-on-year growth of 37%. Of this, Ukraine, South Africa, Venezuela and Australia have shown significant growth in FY13. OTC continues to be our focus along with expansion of the prescription product portfolio. OTC now stands at 34% of the total revenue, and there is superior growth over the previous year. We expect this growth momentum to continue in the emerging markets on the back of increased serviceability to these territories, additional OTC opportunities and other new product launches.

In Europe, we have transitioned our business model towards a simplified and lean structure. We are also executing plans to change our business mix to deliver threshold level profitability from the region. Our FY '13 revenues stood at €110 Mn which showed decline of 12% over the previous year, which was led largely by the continuing pricing pressures in the external environment.

Onto PSAI segment, we have been able to demonstrate strong growth for the second year in a row. Revenues for the quarter are at $188 Mn reflecting 26% year-on-year growth. Revenues for the year are at $565 Mn reflecting year-on-year growth of 14%. One of the most important growth catalysts in this segment for this year has been the Custom Pharmaceutical Services business. Over the past two to three years, this business segment has been able to convert meaningful opportunities into a sustainable growth story. Along with external revenue growth, the PSAI segment continues to be an important component of the vertical integration advantage by providing valuable support to our generic business by making it cost-competitive. Overall, we expect continued growth in the PSAI on the back of new product launches and new contracts.

Against this background of the financial year 2013, we believe that the financial year 2014 will present us with an interesting set of opportunities for continued growth across all our businesses. Over the past three years, we have invested significant management time as well as resources in driving operational excellence across the company. As you may be aware, in our journey of high growth and rapid expansion some years ago, we faced challenges in our operations, but I am happy to state that with the enormous effort that we are putting over the past 3 years, after embarking on transformational initiatives, we have emerged not only stronger, but we are well prepared to embrace the next phase of growth in the coming years. During fiscal 2014, our focus will continue in building a high quality differentiated portfolio and nurturing strong customer relationships across the markets. I am hopeful that the journey onwards will be interesting and rewarding to all our stakeholders.

As you may be aware, we have moved away from giving the yearly financial guidance due to the inherent variability of the product approvals and launches. While we may not get into specifics on financial targets, we remain extremely confident on delivering growth on the generics opportunity in both the branded and unbranded markets.

With this, I would now like to open the session for Q&A.

Anant Padmanabhan I had a couple of questions. I realized you are not providing guidance, but consensus for fiscal 2014 appears to be expecting about 10% to 12% revenue growth. So first, I was wondering if you could maybe qualitatively comment on that expectation?

Satish Reddy We are not being specific about the guidance but if you look at the various segments in which we compete, which have the potential for growth, definitely there is significant room for growth. The only reason we are not being very specific is also because of this variability that we are seeing. Even last year, when we expected some high value products to be launched, they got deferred and if that happens again next year, it might lead to some pressures. Specifically, to say that is growth possible on a much higher base, it is clearly out there.

Anant Padmanabhan And then I have one bigger picture question, which is with Umang now in the US, I was wondering if you could talk about your broader aspirations in that market, maybe 2 to 3 years down? It looks like there is a strategy in place for growing the OTC business, oncology injectables and dermatology. So, which of these businesses is a key long-term focus for you?

Abhijit Mukherjee Focus area is picking up the right set of products, which are difficult to make with less competitive pressure. In the area of injectables we are investing both in R&D as well as capability in terms of developing products and taking to the market. OTC is another area, however it would not really be driving the North American growth. Overall, it’s the complex generics injectables and as we go along into the next two to three years, there can be a host of other complex products in different delivery platforms - could be patches - other delayed released products - topicals, both steroidal and non-steroidal etc.

Anant Padmanabhan And is there any appetite to grow inorganically?

Abhijit Mukherjee We are always looking for inorganic opportunities, but it has to have relevance to the business. We have specific areas in our strategy, a pathway that we have identified, which are relevant areas and if there is a fit we would certainly go for it.

Anubhav Agarwal On finasteride 1 mg, is there any royalty that you are paying to the innovator? In the opening remarks, when you said that you expect sales to normalize in 1Q‘14, does it mean that you have already booked most of the 180 days exclusivity sales in this quarter?

Saumen Chakraborty This was a settlement product, but we are not disclosing as to what is the terms of the settlement. Further this is actually an ‘out-of-pocket’ kind of a prescription product.

So the kind of margin to expect from finasteride is actually at par with some of the good products that we have.

Abhijit Mukherjee To add, whenever we launch a product in any quarter; there is always a higher sale. It is usual to expect the follow on quarter to normalize to some extent. So that is what we are trying to signal here. The Q4 was a launch quarter for this product and Q1 is the follow-on quarter.

Anubhav Agarwal On the Russian market, just 2 sub-questions there; one is what percentage of your Russian sales today are under price control portfolio as of end of March '13; and second is when do you start supplying from a facility in Russia? Today, you are shipping from India, but when do you have to by law, start supplying from a facility in Russia?

Kedar Upadhye Anubhav, around 55% to 60% of our Russian products are under the essential drug list.

Abhijit Mukherjee There is no clarity at the moment that you have to produce locally. There are some discussions in progress that the government funded products would first get into some difficulty. If there is local manufacturing available, then that will be given priority. A very small portion of our business falls in that category and in the current context we do not perceive this to be a major risk.

Prakash Agarwal Wanted to have a sense on R&D expense. It is being very strong and we are able to see the ramp up, 6 filings for the quarter taking the total to 18 for the year. Just wanted to know your thoughts, should we continue to see this 18 - 20 filings on an ongoing basis which means that R&D expense would be around 7% of sales going forward?

Saumen Chakraborty R&D is going to go up north of 7%. We said that it will go up going forward, but at the same time we also indicated that we do not expect it to go beyond single digit. And in terms of the total number of filings, that is the kind of numbers we have in our yearly filing plan.

Prakash Agarwal Could you give a qualitative mix of the filings in terms of if it would have included Para IVs, FTFs or niches?

Abhijit Mukherjee Future filings would be around the complex products. They would be injectables, delayed-release products etc. So, one of the reasons that we would be seeing a slight inching up of R&D expense is that some of these products need differentiated clinical expenditure and some of these products also partnered with various companies around the world. All capabilities, we do not have in-house. We have some capabilities we need to plug that on with some of the capabilities in different parts of the world, but the end game is to get to the products which are of lesser competition and which are slightly inching up the R&D portion for good reason.

Prakash Agarwal We see most of the Indian pharma companies, those who have reported so far, doing around 15 to 20 filings. So, a filing takes around 2.5 to 3 years to get approval and by the time we see approvals coming in, do you think that niches could be commoditized?

Abhijit Mukherjee We do not think so. I think there will always be that room to go for products which would be of lesser competitive nature. Having said so, there is always a possibility that it would see some more competition, but we are picking up products which we think are the difficult ones. There could be 1 or 2 more players, but it is certainly not going to be an atorvastatin or montelukast or products like that.

Prakash Agarwal On gross margins, we had 58% gross margins versus 60% in the last quarter. I understand for Propecia, you said margins are not that great, but I would have assumed that the margin sequentially would not have declined. Any particular reasons?

Saumen Chakraborty Yes, it will definitely depend on the product as well as market mix. Then there have been some inventory write-off for the dropped or some delayed products.

Prakash Agarwal So, you mean to say pricing pressure in the US generics?

Saumen Chakraborty No, not the pricing pressure. Overall margin depends on the product and market mix. In this specific quarter, there has been some adjustment in inventory due to write-offs of the dropped and some delayed product.

Prakash Agarwal So, 60% is the right number to look at going forward?

Saumen Chakraborty It will be in this range.

Bino Pathiparampil Coming to the US market, you mentioned that there were a few high-value products that could not get approved in FY '13. In the normal course, can one expect for approval of some of these in FY'14?

Abhijit Mukherjee Normal course is a very generalized term. These things are not in our control. Some of these are complex products with difficult pathways, whether it is regulatory or intellectual property, it is not easy to comment on exactly when that would happen, hope that happens quickly.

Bino Pathiparampil The domestic market growth this quarter per se was a bit weak, although for the year, it is okay. So was there anything into that or was it just a fluctuation in the channel inventory or so?

Satish Reddy We actually see the quarter has generally been low for most companies. So, I would not see it as anything unusual.

Bino Pathiparampil The entire $22.5 Mn, is that all in other operating income?

Kedar Upadhye $22.5 Mn received in the month of March, which was booked in Q4. Out of that $2 Mn is in R&D, $20.5 Mn is in other income line.

Bino Pathiparampil So actually, your R&D expense for the quarter should be taken up by $2 Mn?

Kedar Upadhye Yes.

Girish Bakhru On the Russia CIS, if I look at Russia separately QoQ, there has been some decline and CIS has jumped from Rs. 70 crores to Rs. 95 crores. Is that a new base or is there some one-off in the CIS sales?

Abhijit Mukherjee We are experiencing strong growth in CIS, especially Ukraine, which is the largest of the CIS countries. Kazakh is also doing well. We are quite optimistic about the CIS markets. Having said that, we are continuously on the lookout of assets in-licensing and one such deal is through and that is one the reasons which has gone in. Overall, we are quite optimistic in CIS markets and also the other emerging markets as well.

Girish Bakhru So, this run rate can ideally continue?

Abhijit Mukherjee These branded generic markets are seasonal, and as you know always display seasonal behavior. But, if you track our earlier quarterly trends, I think we should certainly build further on that.

Girish Bakhru On the US side, can you give any color on Reclast? When do we see more product approvals from the competition?

Abhijit Mukherjee I am afraid not, we cannot talk about when competition is coming in. At the moment, it is a two-player market, we went in first. Difficult to give you an update on who is coming in next and when.

Girish Bakhru On the progress with biosimilars, where are we in terms of launching or filing in Russia or in other emerging markets?

Abhijit Mukherjee We are progressing on our biosimilars in emerging markets. There are small markets i.e. Myanmar, Vietnam, so as the other countries we have launched and revenue is not so meaningful. On the major market, I think the file is progressing.

Girish Bakhru Can you comment on Russia? Specifically, is its something which is close or would it still take 1 or 1.5 years timeline?

Abhijit Mukherjee On the regulatory front, I do not think it is fair to comment on timelines.

Sonal Gupta Would Zometa be a meaningful contributor in this quarter for you?

Abhijit Mukherjee Zometa was launched in Q4 and Reclast in Q1. So Zometa, more players have come in, but we have formidable share. It was a day one launch for us. I think all of it has not come in the public domain but soon will show up in the public domain. So, it is going to be meaningful for us.

Sonal Gupta Coming back to the R&D question. You just announced that you are again setting up R&D in the US. I think 3 or 4 years back, you had shut down your R&D in the US. So, just want to understand what is going on? Previously you guided for R&D being between 7% to 8%. Is it something that we should expect or do you think that number has risks to the upside rather than the downside?

Satish Reddy The previous R&D that was shut down was to do with NCE research. That has no bearing on what we are doing now. The current one that we are talking about is a small development lab for oral solid dosage forms that we are setting up in the US. This does not raise the cost significantly in terms of infrastructure. It is just part of our whole effort of globalizing R&D, because to give it the kind of horsepower that we require for delivering high value products, that is why it is being done.

Sonal Gupta Given that we have the OctoPlus integration also happening. So, where do you see R&D really peaking in as a percentage of sales?

Satish Reddy It is difficult to comment exactly based on OctoPlus because if you take the overall R&D expense of the company, it also includes spend that goes on in proprietary products as well. As and when you see more and more products progressing towards clinical trials, you would also see an increase in spend. If you say in terms of absolute peak, it is difficult to predict that. It is all predicated on the events. However from the current level of say 7% of sales, we still expect it to be in single-digit even for the next two to three years at least and even beyond that.

Sonal Gupta You named some delivery platforms earlier in the call. So are you already starting filing for these products or these are still in development phase?

Abhijit Mukherjee There are quite a few in development phase. A few should get ready for filing towards the end of the financial year. As we speak, some have been filed from our partners but then a partnership product would have revenue sharing and some sort of deal.

Sonal Gupta Lastly, can you comment on the CAPEX for this year?

Kedar Upadhye For the year, the CAPEX is $123 Mn.

Sonal Gupta For FY'14, what is your expectation?

Saumen Chakraborty It is in the range of, Rs. 500 crores to Rs. 600 crores.

Sameer Baisiwala First question, I know you are for refraining from giving any financial guidance. But for some of the businesses which have shown traditionally a stable growth – I am referring to India, Russia, maybe PSAI -- Is there anything to say that, that pace of growth will not continue? Would it be any different from what we have seen in the recent past?

Satish Reddy We expect it to continue.

Sameer Baisiwala Okay. So, I think the bigger variability is coming from US, I guess.

Satish Reddy I was more referring from what happens in the US, because that's where the big growth is. 1 or 2 products approvals get delayed once in a while. It tends to push everything. Overall, I think the growth momentum should continue.

Sameer Baisiwala Given the fact that we have a lot more focus on complex generics. Is it possible to just share something qualitatively on what could be the possible rollout? Something like 1 to 2 products per annum is what we should expect going forward in the next 3, 4 years?

Abhijit Mukherjee Yes, that's a fair expectation. Having said that, there are also regulatory hurdles.

Sameer Baisiwala Is there entire complex generic effort focus on US or do you think there could be meaningful upside from the other geographies as well?

Abhijit Mukherjee The products are leveraged, wherever it is applicable, like EU certainly would have some spillover effect. However, the pricing in EU is at times fraction of US pricing, sometimes 50% of US pricing and also the regulatory pathway is more challenging at times. So, those are the challenges of getting value out of complex products in other geographies. But there could be some spill over even in some emerging markets as well, but the large part of it would come from US.

Sameer Baisiwala On the US pricing environment. Just philosophically, I am trying to understand the market dynamics. Even if there is no new competitor for your base business, do you end up seeing some price decline or in that case price remains stable?

Abhijit Mukherjee There are 2 things happening in the US market. One is you are probably aware, that the customers are consolidating and this has a paramount impact in terms of the way they approach the bidding, selection of suppliers etc. They try to leverage scale to derive some value out of it, all that is happening and much of it is in public domain in terms of various retailers what they are doing, in terms of increasing their footprint in various parts of the world, in US, consolidation itself, so, that is one factor, which is causing some erosion in prices. Secondly, there are new players coming in, specifically now a case again, there is a lot in public domain, on lansoprazole, on tacrolimus, ziprasidone players have come in. So, while as market share gets protected, the value goes down. This is going to be a feature of US market for all quarters and for all players.

Sameer Baisiwala Just to understand is customer mix now fully digested or do you think there is some more pain left, wholesaler versus retailer as a customer, the shift that you have been seeing?

Abhijit Mukherjee You mean the consolidation of the customers?

Sameer Baisiwala The impact of the consolidation. If there is no more consolidation, then all your orders have been reset at a price and now new base to start with or there is more pain left.

Abhijit Mukherjee By and large, for the year, I think it is done but the impact is not seen and it would be seen as we go into next quarters for the first point. The second part as competition comes in, it will have its own implications - there is competitive pressure, but I think we are taking it as part of the business framework in North America.

Manoj Garg Just would like to understand about the ROW market. We have a consistent rate of around 130, 135 crores kind of quarterly run rate in ROW market. I just would like to understand that how the GSK deal is inching up and are we seeing some traction over there?

Abhijit Mukherjee The GSK deal is a very small percentage of the overall emerging markets revenue which we have. It is a very specific deal tailored for certain products in certain markets. So, it is not a very large, meaningful part of the whole revenue today. As we go along it will ramp up to a certain extent, but even in 3 years, it is not going to be a very significant part of the revenue.

Manoj Garg Mr. Chakraborty, you have indicated there was some inventory write-off during the quarter. Can you quantify that amount if possible?

Saumen Chakraborty No, we do not really specifically quantify as such. I indicated some of the dropped and delayed product related inventory write-offs also had an impact on the gross margin.

Manoj Garg If you look at the SG&A expenditures on a sequential basis, despite there being around 16% kind of growth in the top line, we have almost seen the flat SG&A kind of expenditures. So, are we seeing that operating leverage coming in the system and probably this run rate is going to sustain going forward?

Saumen Chakraborty We said there is 100 bps improvements in SG&A despite of course certain increase which has been happening in a normal course in terms of the annual increase that we talked about. There are also certain specifics, such as the effect of rupee depreciation that definitely has an impact on SG&A as well apart from giving us some benefit on the revenue side and one-time acquisition related expenses.

Manoj Garg Despite those higher expenditure and all we were able to contain our SG&A cost. So, is it going to be a run rate going forward?

Saumen Chakraborty Of course, we expect operating leverage. Having said that there will be some impact of annual increases that would be there.

Manoj Garg What would be the tax rate for the year in FY'14?

Saumen Chakraborty Range of 22% to 23%.

Nitin Agarwal Satish, on the India business. I guess we have done a fair bit of catch-up as far as growth is concerned over the last quarter or so. But when you take a 3 to 4 year view of the business, do you see the character of the business materially changing in terms of the growth trajectory given the fact that this is one big difference as far as we and some of the faster growing peers in the space is really concerned, pace at which we are growing in domestic business?

Satish Reddy Yes, it will change. The answer is yes. So the question is at what rate will it really clip is something we have to wait and see because if you have seen the kind of challenges that we faced, a lot of it are own internal doing it in the past. All I was trying to indicate was that, that has been reversed from what we conveyed at the beginning of the year. So that is moving very well. Now, like you said, there is competition that is growing at a faster rate. So we're not the only people. Although definitely, if you have seen a couple of months, we are one of the fastest growing companies. But having said that to really grow much above the market growth rate, to really widen the gap from the current market growth rate and then grow much above that, a series of steps have already been put in place, some have been piloted, they are working really well, some of it has to do with new products, some of it has to do with some realignment that we did in the field force. All of it for it to play out, we just have to watch maybe the next 2 quarters before we can really say that in the next 3 years, which is the timeframe that you are looking at, can we grow significantly faster than the competition, so I would still wait for the next 2 quarters.

Nitin Agarwal In some of the plans that you are talking about, practically is it possible for us to grow at like 18%, 20% growth rates with some of the our larger peers have been able to achieve for the last few years or we will not be able to hit this kind of number given the structure of our business?

Satish Reddy Eventually, yes, of course. So all I was trying to indicate was one of the major events is obviously going to be this pricing policy being notified. So its impact of the market, exactly how things are going to settle down. So that is why I am just sounding a little bit of caution, saying that, let us watch for the next 2 quarters how it settles down, and then really look at how much more than the market rate can we grow.

Nitin Agarwal Secondly, on the ROW business, we restructured the business some time back, and we focused on a bunch of businesses. And you mentioned 4 geographies, which have been doing extremely well for you. So again, when you look out next 2 to 3 years, are we looking to consolidate these businesses, try to grow especially on these geographies, are we looking to add some more geographies to this business also?

Satish Reddy These are the geographies where we have been present earlier. So the kind of effort that we put in over the past year or 2 that has led to growth in these markets. So these are nothing new. So any of these markets that we talked about, South Africa, Venezuela, Australia and New Zealand, we expect to continue the growth momentum because a lot of potential is being given to these markets. So we do not expect additional markets to add to this. So from these markets itself we will continue to grow.

Nitin Agarwal So you are not looking at some of these newer markets, like Mexico and Brazil?

Satish Reddy No, we are not.

Nitin Agarwal And lastly, Saumen, on the receivables, there has been a steady increase in the receivables over the last receivable days over the last 3 to 4 years. Is there a conscious sort of strategy for the same or how do we see this thing playing out for us?

Saumen Chakraborty If I compare last year, the DSO as such has not increased.

Nitin Agarwal At least the numbers which I have, indicated that it has gone up from 58 odd days to about 87 odd days over the last 3 years?

Kedar Upadhaye Yes, it is a function of the business mix, Nitin. And one country where we had to align our receivable days in line with the market reality was Russia where approximately 1 more month of receivable has been invested in the market.

Nitin Agarwal But around these 85 to 90 days, is it where we should expect the DSOs to stabilize now?

Kedar Upadhaye We do expect our DSO to stabilize at the current levels at least during the next 12 to 18 months.

Nitin Agarwal On the API business, Satish, how do see this playing out for us? We had these big years for 2 years when a lot of drugs went off patent. Now, going forward, the number of expiries are going to reduce. So is it going to hamper the growth of this business? Obviously, we have grown at a very, very fast pace over the last 2 years?

Satish Reddy The growth drivers are in various areas for API business specifically. So in the past, if you look basically look at the markets of where we were competing in and the number of customers that we used to have, there are a variety of them. So a lot of work has been done in terms of consolidating the customers whom we are going to serve, so we made a choice on that. Also, in terms of the markets that we are stepping up our resources and also some of the technologies that we are investing in and also making sure that we are able to complete quite aggressive in the market, a lot of steps have been taken. So if I add all these things together, certainly, there is growth to be expected from the API business. But that is something you have to wait for things to rollout because this is also some kind of a cyclical growth in this business. You cannot expect that every quarter will be the same as the previous quarter

Ranjit Kapadia My question relates to Biosimilars. What is our strategy to enter in the regulated market of US, Europe and Japan?

Satish Reddy So this is part of the Merck Serono deal that we have done. So that is how it is going to progress into these markets.

Ranjit Kapadia When can we expect a substantial amount of revenues coming from this business on the regulated market?

Satish Reddy There is still quite some time, 4, 5 years at least.

Saion Mukherjee You mentioned that 65 ANDAs are pending. Can you quantify how many you would classify as complex or limited competition in this pipeline?

Abhijit Mukherjee Again, directionally, we are moving towards complex products in relative terms. I think we would not be able to give you an exact breakup. Firstly, the definition of complex itself is a broad definition. How do we exactly say this is fully complex, this is half complex and this is not complex? But directionally, we are moving in the direction of products. We are trying to go for products of less assets of less competition through various means, whether it is manufacturing complexity, whether it is development complexity, whether it is regulatory complexity, whether it is clinical trial requirement or it is clinical property.

Saion Mukherjee You would be classifying when you identify these opportunities, your expectations could be like 2, 3 player market. I do not know. Is that the way you look at it given the complexities involved? How do you go about defining a particular opportunity as limited competition?

Abhijit Mukherjee Whichever asset gives sustainable revenue for at least 2 year period, would be complex. So that would naturally come with lesser number of players. These 65 ANDAs you eluded to is, some of it is historical going ahead. The selection is largely towards products, which we think hopefully would attract less players. As you progress, there are not large blockbuster targets as we all know. So the choice would be a little more sharper towards these, but these are all assumptions. As we actually hit the finishing line, we would actually know where we are.

Saion Mukherjee You mentioned that there have been some slippages in terms of gaining approvals on time on some of these products and you did mention I think one or two such opportunities you would see going forward, so over the last one year in your interaction with the FDA, how confident are you that these things would come through in FY14 that you would have two more launches which would have limited competition?

Abhijit Mukherjee There are always expectations.

Saion Mukherjee Is that something that you need to do in terms of doing more studies or data or it is just that the assessment is taking more time? Where is the bottleneck at this point?

Abhijit Mukherjee In most cases I think we are by and large responding in reasonable period. Restructuring, GDUFA etc is taking a little bit of our time but it will be in right speed soon, we hope so. At the moment I think it is going slow, not so much for a lot of new studies or new things which we need to do. There are of course some questions here and there but not too much.

Saion Mukherjee So it is more administrative in nature in that sense.

Abhijit Mukherjee We would guess so.

Saion Mukherjee On Biosimilars, what is the pipeline and what's the sequence of launch that we expect in India?

Satish Reddy Saion we don't discuss product specific issues here.

Saion Mukherjee Can you disclose number of projects that you have currently?

Satish Reddy There are about five or six but particularly we will not be able to say which ones and when do we expect to launch them, that I will not be able to comment.

Saion Mukherjee Finally, can you share the cash flow, hedge loss/gain number for the quarter?

Kedar Upadhaye Saion this quarter we booked about 28 crores of hedge loss. Last quarter we booked about 55 crores because of the increase in the net delivered rate our hedge loss is coming down quarter-on-quarter.

Saion Mukherjee So next quarter you expect it to reverse?

Kedar Upadhaye We will not comment on that.

Saion Mukherjee	The total outstanding hedges I think you mentioned 56 to 59 something.
Saumen Chakraborty	It will depend on the current conversion rate.
Monica Joshi	Just one question, directionally where do you think is Lunesta as the case going I believe you had a summary judgment in your favor, so how do you as a company now progress on Lunesta and do you think that this would be somewhere close to an opportunity in FY14?
Abhijit Mukherjee	Under litigation, we would not be able to comment on this.
Monica Joshi	On the other product, on metoprolol, if you could share what is your expectation now, suppose one more player or two more players enter the market, just hypothetically how much do you see that the market could shrink further?
Abhijit Mukherjee	The market has shrunk to a reasonable level actually because with our 15% market share carving out it did take some toll on the market itself. Another player coming in is anyone's guess. It is a good product but it is not absolutely super product for a few more players to come in.
Sonal Gupta	On the PSAI side, are there any one-off revenues or linked to exclusivity related API supplies or anything which is driving up the quarter?
Saumen Chakraborty	Earlier also we have said we should not judge the PSAI performance on quarter-on-quarter basis. We should look more at the performance on a yearly basis because there could be fluctuation from one quarter to another quarter.
Sonal Gupta	On a whole year basis from the commentary, you think there is a sustainable growth of close to double digits possible in this business?
Satish Reddy	The possibility is there. We are not saying no to that but again it depends on the contracts and the customers etc.
Sonal Gupta	Last year you had given a growth guidance and a potential number of around $ 2.4 to 2.5 Bn, FY' 13 was the biggest. So if you look back at the guidance that you gave in FY09 and then last year, what has really changed? Have there been some product opportunities that you were not able to capitalize or were there some products which genericized much more than you expected? How would you look at that and would it be possible for you to now give a three to five year view for the business?

Satish Reddy It is difficult to quantify exactly what led to what kind of erosion so for example we clearly said that when it came to the US market, which is a really substantial part of the sale, some delays in approvals, and some products where we expected lesser amount of competition there were more of that. So there are a host of factors which led to that. Even now if you ask me about say three to five year business direction what kind of growth, all we can say is that at least in the areas where it is stable kind of a market like Sameer had asked before this double digit growths are I know sustainable certainly. If you take the Indian market or you take the Russian market or some of the emerging markets where it is branded, it is pretty much possible, but when it comes to the other parts of the business there are these high value products, there is dependency on factors sometime which are not under our control like the regulatory issues that we face, so that's the reason why we are not able to specifically guide you to say that this is what is going to be every year while this uncertainty do exist and variability exists.

Sonal Gupta On the US OTC business you said that it may not be a major driver of growth there is still a growth opportunity but just want to understand I believe the market in the US on the OTC side is pretty big and given that you have strong capabilities on API and manufacturing, what is really the challenge for you to scale up that business? Is it relationships, I understand the margins might not be as attractive as generic but then it is probably a longer term business.

Abhijit Mukherjee For the Rx business there are a lot of products one can file and aspire to get approval. As we speak probably Nexium could be the next launch otherwise there are not whole lot of big OTC switches one has seen. Even the last switch of Lansoprazole was not a great success in the market not just for us. We have a good market share. So market share - customer relationship is not the issue but there are not so many products. There is a lot of talk of future switches happening, there are statements made by a lot of companies saying that they see a growth. Being an active Rx player in the US market as the switches happen we would be in a better position we can say that but today as we speak there are not whole lot of products which are available for revenue from the OTC. And just to conclude I think this is also a cyclical business for us. Q4 was the allergy season although it was subdued this year but going into Q1 that part of it would be moderated.

Sameer Baisiwala Just on the GDUFA, I guess right now the approval time by FDA may be anywhere 35-36 months and I think they think that they can bring it down to 12 months, over three years or so. Is it going to be good for you, good for the industry or not so good?

Abhijit Mukherjee I think 12 months is an aspirational figure. Let us see how it pans out but more importantly I think there is a great degree of rigor which is coming in, so the companies which are going to use QBD and other development methods which are much more scientific would reap benefits. We will see whether we are in one of those. Our efforts are on but I don't see it is a negative really.

Sameer Baisiwala When I say negative in the sense that for certain products you have only three or four players in the market and because of FDA's resource constraint unable to approve more people so that kind of luxury of low competition market you may not have if at all there are people in the queue. So I was coming from that point of view.

Abhijit Mukherjee For the plain oral solids, yes but since the rigor of review is going up substantially there would be difficult questions asked and if the development is not in the right way there would be differentiation whatever X months whether it is 12-14-18 or 20 would be applicable to the companies who have done the work very-very well. So there would be differentiation.

Sameer Baisiwala Satish you talked about longer term growth being there even though you are not quantifying but you are quite optimistic about it. Just on the margins, where we are right now whatever ballpark 18-20% at operating level, over the next three to five years what could be the broad trend for the margins?

Satish Reddy Certainly improvement on the existing base. It is difficult to quantify but the way we are moving in terms of the market, the business, the kind of products that we have chosen, there is a certainly room for improvement there.

Kedar Upadhye Thank you all for joining Dr. Reddy's senior management for Q4-FY'13 Earnings Call. In case of any additional clarifications, please feel free to get in touch with the Investor Relations Team. Thank you and good day.