Dr. Reddy's Laboratories Limited

Q2 FY12

Earnings Call Transcript

Kedar Upadhye *(Investor Relations)*

Good morning and good evening to all. Welcome to Dr. Reddy's earnings conference call for the second quarter ended September 30, 2011. 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 the 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; and Investor Relations team. Please note that today's call is copyrighted material of Dr. Reddy's and cannot be rebroadcasted 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. After the end of the call, in case any additional clarification is required, please feel free to get in touch with Raghavender, Milan Kalawadia or myself. 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 all of you on the call today. I will discuss the key financial highlights. The convenience dollar rate for the quarter is at Rs. 49.05 per dollar, and the average dollar rate for the quarter is at Rs. 45.80. Due to this high variance, the convenience translated reported numbers and the local currency numbers will be different. For the purpose of my section, all the figures are at the convenience translated rate, which is at Rs. 49.05. However, for the purpose of the business overview section that Satish will address, the rates that will be used will be the average translation rate at Rs. 45.80 to the dollar.

Our consolidated revenues in this quarter grew by 21% on a year-on-year basis to $462 million. Year-on-year growth for the first half of this fiscal is at 19%. Global Generics segment recorded revenues of $329 million, which represents a growth of 18% for this quarter. Pharmaceutical Services and Active Ingredients, which we shall call as PSAI in this call recorded a healthy growth of 28% to $121 million.

Our consolidated gross profit margin for this quarter is at 54%, and the margins improved slightly due to a favorable business mix. Gross margins for Global Generics are at 63% for the quarter, marginally lower compared to the previous year. Gross margins for the PSAI segment are at 28% for the quarter versus 22% for the previous year. This improvement in margins in the PSAI segment is on account of healthy growth in the sales and product mix.

SG&A expenses, including amortization for the quarter are at $147 million, an increase of 26% over the previous year. This increase is attributable to the following factors: Higher freight costs, both on account of increase in sales volumes as well as rate increases; inflation linked to increase in manpower costs across businesses; incremental costs at Bristol and Shreveport manufacturing facilities in the U.S., where we anticipate a higher level of sales in the second half; the step-up in the OTC-related selling and marketing costs in Russia as compared to the previous year, which is in line with our strategic intent to expand the OTC portfolio. Sequentially, part of the increase in the spend is on account of the depreciation by Re. 1 versus average USD rates between Q1 and Q2, and this represents an approximate value of $5 million.

Adjusting for the interest on the bonus debentures of approximately $2.4 million and the reversal of the excess provision of $2 million after voluntary retirement scheme based on final offers made, our EBITDA is at $104 million and represents 23% of sales and has registered a growth of 20% over the same period in the previous year. Adjusted EBITDA therefore for 6 months is at $193 million, 22% of

sales and grew by 23% over the previous year. The effective tax rate for the quarter is 17%, which is in line with our full-year planned base business tax rate. Adjusted profit after tax for the quarter is at $63 million and is at 14% of sales. Adjusted profit after tax for 6 months is at $115 million and grows 13% over the previous year.

Key balance sheet highlights are as follows:

Our operating working capital has increased by $84 million from the previous quarter. The increase in inventories by $24 million is largely in anticipation of near-term launches. The increase of $70 million in receivables was largely on account of higher sales in this quarter and the revaluation of foreign currency receivables at the closing forex rates, which is almost 325 basis points higher than the average rates at which the revenue are booked. Capital expenditure for the 6 months is at $73 million.

In October, we have borrowed $220 million at LIBOR plus 185 basis points, which we believe is a good rate for us, this is a long-term loan. Our borrowing shall help us structure a short-term to long-term mix of borrowings and allow more flexibility for growth. We expect to use these proceeds to repay some of our short-term working capital loans and create more flexibility in our business model.

Foreign currency cash flow hedges taken to cover the volatility on net exposure in the coming six quarters in the form of derivatives and offsetting loans are approximately at $775 million hedged largely in the range of Rs. 45 to Rs. 49 a dollar. In addition to these, we have approximately $280 million of balance sheet hedges of net foreign currency assets.

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

Satish Reddy *(Chief Operating Officer)*

Thank you, Umang. The robust performance across most of the markets in this quarter has set a strong foundation for the second half of this year. Strong delivery in North America and Russian markets helped Global Generics grow by 18%. We are also pleased to see an impressive growth in our PSAI segment on the back of both new launches as well as an improving order book status.

I will now cover the business highlights for each of our key markets. Our performance analysis is based on the respective local currencies. Starting with North America Generics – We recorded a robust revenue growth of 45% with revenues of $137 million for the quarter. We are quite pleased to see consistent sequential growth for the last 6 to 7 quarters. This scale-up was possible only due to periodical new product launches as well as the gradual market share increase in existing products. For this quarter, lansoprazole, fondaparinux and omeprazole magnesium OTC were the key products which drove the growth. We believe the initial market share uptake in fondaparinux is as per our expectations, and we expect to ramp up our manufacturing volumes and increase the market share gradually over the next coming months. As we had mentioned in our earlier calls, we expect North America business to do even better in the second half of the year on the back of new customer orders in Shreveport, scale-up in our Bristol launches and other new launches and market share improvements. This quarter, we have launched 5 new products. During the quarter we filed 4 ANDAs and cumulatively, we now have 76 ANDAs pending approval with the US-FDA, out of which 40 are Para IVs and 11 first-to-files.

Moving on to India. Revenues for the quarter are at $76 million, which represents a year-on-year growth of 9%. The current quarter's growth was as per our expectations of a gradual improvement. For the month of September, we are seeing some encouraging secondary sales trends. Dr. Reddy's September month IMS growth is around 14%, which is in line with the market growth, and we have also gained a rank for the month. On the operations front, we are taking the necessary steps internally to address some of the weaknesses, and we hope to do better in the forthcoming quarters. Most of our top brands did well, growing much above the average domestic business growth rates. Our biosimilars portfolio continues to do well, and it grew by 22% over the previous year. During the quarter, we launched 3 new products.

Our Russia business continues to do exceedingly well, with revenues of $63 million for the quarter and year-on-year growth of 30%. Our secondary sales growth of 20% for the 12 months ending August 2011 is much higher than the industry growth of 10%. Our rank in Russia currently stands at No. 12 compared to No. 13 last quarter. This growth continues to be largely driven by volume growth

across our portfolio, especially in the OTC segment. This has been made possible due to brand promotional investments in the OTC space, which may have impacted our margin slightly, but this is a strategic move from a long-term growth perspective. During the quarter, we have launched one new product in Russia.

Talking about Europe Generics, revenues are at EUR 33 million; this is a decline of 17% over the previous year. Revenues from Germany for the quarter are at EUR 18 million, a decline of 33% largely due to the continuing tender-based product pricing pressures. As you are aware, the supplies to the AOK tender, which have commenced in June this year, have taken time to scale up, and the full effect will be visible in the next quarters. Revenues from the rest of Europe grew by 17% on the back of new launches in the UK and growth in the out-licensing business.

Moving now on to the PSAI business, revenues for the quarter are $130 million, an impressive year-on-year growth of 30%. Active Ingredients business grew very well on the back of new launches in Europe, while revenues from the Pharmaceutical Services grew on the back of improved customer order book status. We are pleased to see a good recovery in the Services segment. Our pipeline lock-ins for our Active Ingredients segment is encouraging, as this builds the certainty of a steady performance for the next 12 months. During this quarter, we have filed 11 DMFs globally, including 3 in North America, 2 in Europe and the rest in other markets. With this, the cumulative filings stand at 506 globally.

I now hand it over to Prasad for his comments.

GV Prasad *(Chief Executive Officer)*

Thank you, Satish. Firstly, let me take the opportunity to wish you all a Happy Diwali. I am quite pleased with this quarter's performance, and I am also happy to announce, as we are speaking now, Teva and Dr. Reddy's have launched olanzapine in US with 180-day exclusivity. This is one of our most anticipated and high value launches for this quarter.

As we have mentioned in our earlier calls, this year is critical for the scaling up of our portfolio and to build a base for achieving our fiscal 2013 aspirations. In Q2, we delivered a sequential growth of 15% and demonstrated the capabilities to scale up across our focus markets. The second half of the fiscal is expected to be promising, led by a higher mix of the US Generics business on account of new launches, expected market share improvements and continuing growth in API and Russia.

Over the last few years, as we have begun to demonstrate higher success from our limited competition or complex generic opportunities, there has been a conscious shift in our approach towards the generic R&D. The emphasis now is more towards quality and complexity of our filings rather than overall coverage of the patent expiries. Our objective is to increase the share of complex generics in our portfolio, and consequently we are calibrating our R&D spends in line with this.

On the regulatory front, we are pleased to inform you that in September, two of our manufacturing facilities, our Bollaram plant and our Vizag plant had successful FDA inspections with no 483 observations. With reference to our Mexico facility, the response to the warning letter sent by us is currently under review. We are providing periodic updates to the FDA on the activities committed in our response letter, and the activities are pretty much on track and progressing as per our expectations. Upon satisfactory review of our response, the FDA is expected to re-inspect the plant in the near future.

Japan is a strategic market for us in our endeavor to become a global leader in the generic industry. The effort on our collaboration with Fuji Film for this market is picking up pace, and both the management teams are currently discussing detailed business and operational plans. And we expect to sign definitive agreement by the end of this fiscal year.

With this, I would now like to open the call for questions and answers that you may have.

Q&A Session

Nimish Mehta: Can you just share what would be the sales and profitability of the acquired GSK facility at Bristol for the quarter?

Umang Vohra We are not giving that level of detail, but I can tell you that the second half and this quarter especially would be the scale-up in that plant on account of the antibiotics sale

Nimish Mehta: I see. Is it fair to assume that for this quarter, it is almost the same as it used to be for the last quarter that is Q1 FY '12?

Umang Vohra: Marginally higher than the previous quarter, yes.

Nimish Mehta The second question is related to the robust increase in API sales to Europe especially. If you can throw some more light, you mentioned about out-licensing growth opportunities and stuff like that, so if you can just be more elaborate on it.

G. V. Prasad: The growth is primarily driven by new molecule launches and pickup of the business from various customers. So it coincides with a large number of patent expiries.

Nimish Mehta I see. Okay. And so we, basically, will be able to expect this going forward as well as for all the quarter?

G. V. Prasad: Next year is also a big year in terms of patent expiries, so we should see growth.

Nimish Mehta Okay. Any particular product that you had launched recently, which is where you are driving a lot of growth, if you can share that.

G. V. Prasad: It is across a number of molecules. We are not sharing that level of detail again.

Nimish Mehta Finally, I could not hear clearly. You mentioned the gross margin of bulk as well as formulation. If you can just repeat that, I missed that.

Umang Vohra Yes. The API is at 28%, the PSAI segment is 28%, and the Global Generics is at 63%.

Nimish Mehta Okay. And API last year was 22%?

Umang Vohra 22%, that's right.

Nimish Mehta And formulation last year was?

Umang Vohra It was about 63.5%, 64%. It was at the same range as where we are today.

Anubhav Agarwal Just one question on gross margin on the Global Generics business. If I just see that sequentially, there is almost 100 basis point decline in the gross margins despite India, Russia and the U.S. market, all the high margin regions doing well. What's the rationale for this?

Umang Vohra So I think the gross margin decline that you are seeing is there's no specific issue, it is more linked to inflation and input cost, right and maybe product mix. There is no specific issue, because it is not contracted by 100, it's probably about 50 to 60 basis; there is no specific issue to it.

G. V. Prasad In the area where there has been a decline is Germany.

Umang Vohra That is right.

G. V. Prasad Other areas are like more or less maintained.

Umang Vohra Yes.

Anubhav Agarwal And other question was on this policy change around DEPB, what is the net impact on Dr. Reddy's on this?

Umang Vohra So the original DEPB rates were about 6% for us as a company as an average. We probably will now get about somewhere between 2.5% to 3% in that range. The total amount of DEPB that we had last year was a little over Rs. 100 crores. So depending on how this could be calibrated, impact could be about Rs. 50 crores to Rs. 60 crores going forward.

Anubhav Agarwal And just it will be last question, Mr. Prasad mentioned about the Mexico facility. What is the next milestone? So in terms of timeline, when do you go back to FDA? Is that a very near-term event, less than 3 months?

G. V. Prasad Going back to FDA is less than 3 months. I think we cannot predict when they will inspect.

Anubhav Agarwal That is correct. Okay. And sorry, if I just may sneak in with one question. Can you just split the growth of PSAI into API and the CPS business?

Kedar Upadhye Anubhav, we are not sharing the split of PSAI into API and CPS.

Prakash Agarwal Just one question on the PSAI. If I look at the growth has been phenomenally well, much better than expectations. Now, are there any one-off elements involved or do we continue to see a 20% plus kind of growth considering the fact that in the last one year, we had seen some single-digit growth. So could you give some color there?

Umang Vohra Yes, Prakash, it is more to do with just the lock-ins as Prasad mentioned, the lock-ins and key product launches. There are a lot lined up for this year and the next year. Also, I think the base was a little lower in the previous year on which we are getting a slightly higher growth in this year. So it is a combination of lock-ins as well as the base effect of the previous year where we grew by single digit. So there's no real one-off in the results. We are hoping that this growth rate continues on the back of these two items.

Prakash Agarwal Okay. Any outlook you are giving in terms of growth for this business?

Umang Vohra No, we have not. We had earlier mentioned that a good outlook to take would be somewhere around 15% odd for the entire PSAI segment.

Prakash Agarwal Okay, perfect. And in terms of the Ziprasidone which is, where you have the shared exclusivity, not clear in terms of launch dates, whether it is going to be March or it is going to be September because of the pediatrics. Can you give some color on that, please?

Umang Vohra We are not commenting on that. If it does happen in the current year, it will be right at the end of March.

Ranjit Kapadia My question relates to the deal with Cipla and Glaxo, if you can give some recent updates and the update on R&D pipeline?

Umang Vohra So, we will cover the Cipla Senade first. The traction on that product is good. We are seeing growth on that product versus the previous year, and it's as per our expectations. On GSK, I think the curve of growth is increasing slightly now. This quarter, I think we have almost done maybe a little higher than what we were doing originally in terms of sequential growth. I think this quarter our net delta would be almost $2 million on GSK, so the traction is improving. There are fair number of dossiers which have been filed. And I think we are waiting for GSK's approval in some of the key markets.

Bino Following up on the question on DEPB, where was that getting accounted, was it in the individual revenue items or was it in other operating income?

Umang Vohra It was in material costs. It is just accounted in the reduction in material costs.

Bino And this Rs. 50 crore to Rs. 60 crore or similar impact has it already come in this quarter or you think it will be more...

Umang Vohra No, that Rs. 50 crore to Rs. 60 crore is for the full year, Bino, and it will start coming from this quarter. So it would be taking an average of about Rs. 10 crores or Rs. 12 crores a quarter. That is the impact of DEPB

Bino Right. Regarding PSAI, is there any component of olanzapine involved in that growth?

Umang Vohra No. No component of olanzapine.

Bino Right. So the arrangement with Teva will be completely captured in your US revenues going forward?

Umang Vohra That is right.

Manoj Garg Just want to understand about the Fondaparinux like in terms of market share gain and all. Though you have mentioned in your opening comments that the market share are gaining as per your expectations, but there are a couple of

reports which indicate that Apotex has been able to garner a much higher market share than what we as a generic company. Any comments on that?

G. V. Prasad Yes, we have started a little slow, but we expect to ramp up over the next few months. Slow ramp-up has been because of, the scale-up of manufacturing as well as configuration of the packaging which initially we had packs which were not completely configured with the demand. So over the next few months, we should catch up.

Manoj Garg Okay. And how is the pricing synergy so far?

G. V. Prasad Satisfactory.

Manoj Garg Satisfactory. Okay. And one of the con calls, the Alchemia CEO have indicated that there will be some reimbursement of R&D cost before they start booking the profit on the fondaparinux and they indicated some double-digit numbers. So are we going to receive it in the coming quarter or it has been received during the quarter?

G. V. Prasad It is part of our business arrangement, I do not want to comment at that level of granularity.

Manoj Garg Right, okay, fair enough. Third, like as Umang had indicated, that there is an incremental delta from $2 million from the GSK deal in the rest of the world market. But still the rest of the world market business, it degrew by almost around 8% to 10%?

Umang Vohra The impact in there is largely on account of the Venezuela devaluation. So the Venezuelan currency devalued by almost 70% and Venezuela is one of our largest RoW markets. It has revenues of close to $25 million post devaluation. So as a result of that, you have seen the growth fall because the rest of the markets and the rest of the world are not that significant and that is why you are seeing a negative. But if you look at local currency terms or volume terms, each of these markets looks very good.

Hitesh: Two queries both on the domestic business side. One is currently I agree that Q-on-Q performance has been much better domestically, but when can we

see 15% plus sort of growth happening domestically? And secondly, the performance of nimesulide, how has that been after the High Court's verdict?

Satish Reddy So I think the steps that we have taken to arrest decline which was happening on some of the major brands, all that has been pretty much taken care of. That is why, in September month our growth rates are in line with the market growth rate. Now in terms of continuity of that kind of growth, I think that after the initiative that we took, will take full effect of that, and that is something we hope to see in the next two quarters. As far as nimesulide is concerned, I think because of the controversial coverage which came in the media, that had an adverse effect on a couple of quarters, but hopefully things should settle down very soon.

Girish Bakhru First question is on the U.S. business, especially on the Allegra-D 24 OTC, have we seen pressure post Teva's resolution of the facility?

G. V. Prasad No, we have not seen anything.

Girish Bakhru Okay, and just broadly, if you could share the overall strategy on the OTC business side? There have been many players who have been talking about gaining the market share in the store brand market, like Par and Watson. So what is the outlook on the overall OTC business in the US?

G. V. Prasad The business performed quite well, and we are happy with the market share that we are picking up. On the molecules that we have launched, all of them are doing better than expected. There is no specific strategy as such other than focusing on which products into stores. And we are well set up now to do all the logistics in the US to third-party providers and our system is becoming more sustainable, and the business is becoming a standalone growth business for us.

Girish Bakhru Any particular color on how much investment is like, say, going in this area particularly?

G. V. Prasad We are not sharing that level of detail.

Ashish Rathi My question relates to the Russian market particularly. If I understand correctly, we do not have a factory presence in Russia, correct?

Umang Vohra That is right, yes.

Ashish Rathi Just on some reports we are reading about the Russian government trying to deliberately reduce the dependency on imported drugs and promoting domestic manufacturing of drugs in Russia. So, does this pose as a threat to DRL in terms of growth or outlook in this market or how do you see the Russian market? I understand it is doing pretty well, and contribution is increasing every year, but is the whole suggestion fair enough?

Satish Reddy That's the move that we have planned a couple of year and now government is also more serious about doing it now. So I think it is an issue for all the people competing in the market, the foreign manufacturers. So whenever it happens we have our own strategies in place to deal with it. So I won't put it as a risk only to Dr. Reddy's.

Ashish Rathi Okay, fair enough. And in terms of the deal with JB Chemical, any particular light you can throw on what is the exact rationale? I understand there have been reports since that it was because of operational issues. And was it over margins or was it because of manufacturing facility?

G. V. Prasad We stand by what we already clarified. We cannot go beyond that.

Rahul Sharma There has been good revenue traction in the PSAI segment in North America despite our Mexico facility being hauled up. Can you please give more clarity on this? And secondly, the trade receivables Q-on-Q have gone up from $349 million to $419 million. I probably missed out on that one. Can you just help me through it?

Satish Reddy For the PSAI business, the product launches in Europe have helped the API business that is the main one, not just the U.S., it is the Europe mainly. So some of the big products which got deferred from the first quarter, they got launched, and those have led to a substantial increase in the sales. Now as far as Mexico is concerned, earlier because of the import alert that followed the warning letters, so we feel that that really could be contributing to the sales but our main product was naproxen that is not covered by the import alert so those sales have continued. But outside of that, I think the whole CPS business itself, the custom pharmaceutical services business itself, because of

some restructuring that we have done plus also, looking at the order book status which have improved significantly compared to before, that has led to a little bit of turnaround. So overall, if you take the entire business, the API business as well as the custom services business, that is turned around and that is why we had 28% growth.

Umang Vohra So on receivables, the numbers that you are seeing, you should also add the impact of Forex, because all the receivables in foreign currency are translated at the closing rate whereas most of the sales are happening at the average rate. And that impact the difference between the average and the closing rate is almost contributing the $25 million worth of increase on the receivables.

Rahul Sharma But net-net, has there been an increase in receivable number of days or...

Umang Vohra No, we have probably seen a day or two increase in various markets. Some markets have gone down but not more than a day or two. We have not seen any significant increase behind that in local currency terms.

Rahul Sharma But if this rate continues, then probably you will see the trend going ahead?

Umang Vohra If this forex rate continues, you won't see an impact in the next quarter on account of retranslation, because the retranslation will come only when you have this difference between opening rate and closing rate.

Rahul Sharma And what about tax rates for the current year and next year?

Umang Vohra It will be 17% is the base tax rate going forward, because the plants in Baddi, they have finished the statutory 5-year permission which was given by the government under the section 80-IC. So we do not have any plants now which have those exemptions.

Sameer Just a clarification on Zyprexa ODT form. Has Dr. Reddy's got an approval for that?

G. V. Prasad Yes, we do.

Sameer And would you launching in market now?

G. V. Prasad Yes.

Sameer Okay. And it is not part of the Teva deal?

Umang Vohra No. That's not part of that the Teva deal.

Sameer And if I am not wrong, I think there are only 3 players who have got this approval?

G. V. Prasad Yes, it is shared exclusivity.

Sameer Okay, fine. And the second question I had was on the terbinafine clinical trials, can you update us where we stand on it, this is for the topical application?

G. V. Prasad The trials are still going on. The data has not been unblinded.

Umang Vohra It is a thousand-patient trial roughly, Sameer and until we unblind the trial, we would not know the results. But we have not heard anything untoward right now.

Sameer And when do you expect to complete the trials?

G. V. Prasad I think it will take another 9 months or so.

Sameer Okay. And just one final question on the domestic market. Is there any risk of increase in the price control by the government? Any thoughts on this?

Satish Reddy It is an industry issue, we have to wait and see.

Sameer I think the Supreme Court has asked the Ministry to clarify its stand. So I was just wondering, do you think this can be a near-term event or any feeler that you have got from the government?

Satish Reddy We don't really, I think the government has to reply to what was asked for, so I don't have a view of it at this point of time but it is an industry issue

Abhay Shanbhag Yes, this is regarding the balance sheet again. There is a sharp increase in debt. Is it largely got to do with the forex, with Rupee depreciation? And can you just throw some light on how much of it is because of Rupee depreciation?

Umang Vohra Yes, it is on account of rupee depreciation, and the amount we will send to you subsequently, Abhay, I do not have the figure right now, but we have done the calculation, and I can send it to you.

Abhay Shanbhag Okay. And in earlier question you indicated that $25 million increase in receivables is due to forex. Would this have benefited your P&L in the current quarter?

Umang Vohra In the first quarter, no, because the difference between the average rate and the billing rate was not high. In the second quarter, the average rate is close to Rs. 46, whereas the closing rate is Rs. 49. So all your receivables get translated at Rs. 49.

Abhay Shanbhag Okay, fine. The other one was on Zyprexa. Can you just throw what is the size of the market for 20 mg and for the ODT?

G. V. Prasad 20 mg is about $900 million.

Abhay Shanbhag Sorry, $900?

G. V. Prasad Yes. ODT is not much.

Abhay Shanbhag Sorry, ODT is?

G. V. Prasad $80 million.

Abhay Shanbhag $80 million. And ODT is shared as you indicated by, I know between three players, yourself, Par and one more player.

G.V. Prasad: Yeah.

Saion Mukherjee Two questions here; firstly, on the Glaxo deal, Umang, you mentioned about the traction building up. So it has been a slow start, how do you see this spanning out in FY '13 for you? Will we see a meaningful inflection in the Glaxo numbers?

G. V. Prasad It would not be meaningful in that sense. I think it will be tens of millions of dollars.

Saion Mukherjee Tens of million dollars. Okay, that's helpful. And secondly, on the biosimilar front, we are seeing very good traction in India. So is it largely rituximab or some of the other new launches that you had is also showing good promise?

G. V. Prasad Rituximab has done well. Darbepoetin has been a little slower than anticipation.

Saion Mukherjee Yes. And on rituximab, my understanding is that for the last one year or so, there has been a good pickup on this product, so what is the dynamics there, have you done anything differently?

G. V. Prasad Market expansion is happening, so that is largely contributing to the growth.

Saion Mukherjee And the pricing is more or less similar levels from what it was earlier?

Umang Vohra That is right.

Saion Mukherjee And finally, if I may just ask one more question on the R&D spend. Incrementally, the increase that we are seeing on R&D, will it be fair to assume that most of these investments are happening towards product development for the US market?

G. V. Prasad A large portion is, but we are also developing for other geographies. So there are 3 or 4 buckets to R&D just to give you that. We have the process R&D for generics and API, then we have the Biosimilars development program, which includes clinical spend also, then we have the proprietary products, a portion of it is NCE**s** but a large portion of it is differentiated formulations. It involves CRO-based contracts, research worldwide as well as clinical development. So single largest bucket is the Global Generics one.

Saion Mukherjee Global Generics? Okay. And biosimilar would still be less than 1/4 of your overall spends. Will that be a right assessment?

G V. Prasad Yes, but you will see increasing trend in the next few years as we start clinical development.

Anubhav Agarwal Just taking the last question further. You earlier guided to R&D spend of around 7% to 7.5% in that range, but we are doing something like 6% to

6.5% right now. Do we expect it to pick up or for this year, it is going to be -- ?

G. V. Prasad H2 will be higher than H1.

Anubhav Agarwal Okay. And a simple question. On constant currency in Russia, what will be your sales growth for this quarter?

Umang Vohra So we are showing in constant currency, it is about 30%.

Anubhav Agarwal It's 30% sales growth in Russia this year? Okay. And on fondaparinux, when is the plan for us to launch in the hospital segment as well?

Umang Vohra Yes. So we are looking at that as well, and it is probably scale up within -- as Prasad mentioned, within a quarter or 2 quarters, we will begin to scale up.

Anubhav Agarwal Okay. And just a last question on SG&A. What percentage of increase can we attribute to just a salary increase of like, for example, what you're seeing, a 27%, 28% year-on-year increase, how much can we attribute to inflation plus salary increase over there?

Umang Vohra We're not giving that level of detail. I can roughly guide you to say that roughly about 50% of the SG&A is manpower, but we are not going to give any further detail and quantify the inflation.

Prakash Agarwal Just another question on the market share of key products, especially tacro, lansoprazole and omeprazole. Can you please share the market share as on the last reported?

Raghavender R Yes. Prakash, on tacro we have roughly about 32%. On lansoprazole, it is about 20%, and omeprazole, it is about 20%.

Prakash Agarwal And fexofenadine is a basket in D24?

Raghavender R The OTC portfolio, there is no real data base to track market shares, but we are doing a fair share of the market.

Prakash Agarwal And fondaparinux, please?

Umang Vohra Fonda is about 10%. About 10% is what we have on fonda.

Prakash Agarwal Okay. And any targets by year end? Because what I understand is we are limited currently in terms of our launches in retail. So any target that we are targeting to reach by the year end?

Umang Vohra I guess the target will be as much as we can supply from here. So we haven't set a numerical target except that we hope to see our market share climbing up quarter-on-quarter.

Prakash Agarwal Perfect. And our guidance remains largely of $2.7 billion of revenues, FY13.

Umang Vohra That is right.

Prakash Agarwal Okay. And on comments on India business, I'm not sure whether I missed this. We have seen a sequential improvement in the growth rate. Earlier it was 6%. Now it is around 9%. So the two key reasons were the brands, as well as the second one was the sales reorganization. So you're seeing these are partly going off, and you will see gradual improvement? Or how is it? Any color there?

Umang Vohra We are seeing gradual improvement. I think there are actions underway to address all of these and including sales force realignment as well as brand promotion and brand maturity. So we are working on both those aspects simultaneously.

Prakash Agarwal So do you see another quarter or a couple of quarters to resolve and come back to 14%, 15% kind of growth? Or it could take longer?

Umang Vohra Maybe about two quarters is a good time for us to probably look at that.

Prakash Agarwal Okay. And tax rates, you had earlier guided I think 18% to 20%, especially for fiscal '12 with olanzapine upside. So are we saying now it is 17% or...

Umang Vohra So Prakash, we guided for 17% on the base and the base excludes olanzapine. With olanzapine, you're right. We would be in the 18% to 20% range.

Chirag On terbinafine, has patient enrollment been completed? Or is it still undergoing patient enrollment.

Umang Vohra: We are nearing the completion of patient enrollment on terbinafine.

Chirag Okay. And secondly, could you update us on your biosimilars plan? Because two quarters down the line, I mean 4 quarters behind, before you had mentioned that you might go it alone in the U.S. And a couple of quarters back, you were talking about potential partnerships. So what is the kind of strategy that we could see going forward?

G. V. Prasad So the biosimilars, the first set of products we always have a partner. I don't know where you got that its being direct. The first set of products we will use a partnership going into the regulated markets. But regardless of the partner being tied up, we are moving forward with the clinical development strategy both for Europe and U.S. for the products. And currently, we are in discussion with companies for partnerships.

Sushant Dalmia: So first would be on the domestic industry. Have you seen any price cuts taken by other players on the existing portfolio on the domestic front?

G. V. Prasad Not as of matter...

Sushant Dalmia In terms of the price competition, by the existing players.

G. V. Prasad Price is not a significant driver of competition in the domestic segment

Sushant Dalmia But have they taken it in terms of any

Satish Reddy Could be possible of definite molecule but it's not like an across industry situation.

Sushant Dalmia And I missed on the forward covers and the forex debt in the opening remarks you had said something that you have raised some long-term debt. So can you repeat it again?

Umang Vohra Yes. So we raised long-term debt essentially to decongest our short-term debt. So what we were doing is we have taken a lot of the short-term debt, and we are trying to replace that with long-term debt. So there's no incremental new debt coming in. It's just so that we can ease our limits on the short-term debt a bit more.

Sushant Dalmia Okay. And on your forward covers?

Umang Vohra The forward covers including for the next 18 months are net about $775 million.

Surajit Pal I have just one question. Going by the company's pretty fantastic performance on protein based products, though there is no news from company's side. Is there any kind of activities on Lovenox filing? Because it is a big product and very few competition is there.

Kedar Upadhye Surajit, which molecule you are referring to?

Surajit Pal Enoxaparin

Umang Vohra We are not disclosing that, Surajit. Sorry, we cannot not disclose at this point in time.

Surajit Pal But will it be right to think that there's some activities are on around from the company's side going by your efficiency in fondaparinux?

G. V. Prasad They are not related. Fondaparinux is a synthetic molecule and Lovenox is semi synthetic. That's not a conclusion you could draw.

Manoj Garg I just want to understand, like the last few quarters you had indicated that whatever the ramp-ups we had in the Tier 3 and Tier 4 market, initially, we had come across with a high attrition in the field force. Just want to understand how that recent issue has -- is there better stability now in the field force?

Satish Reddy So it is one of the factors that we can keep discussing percentages, but I don't think that's the issue right now. So probably what we are saying is through a set of interventions that we have made, attrition is also one of those things, right? So we have gotten pretty much things under control and we hope to improve the situation.

Umang Vohra Yes. We mentioned that there are set of interventions. And attrition is actually a result of something not working well within the company, and that's what we are trying to address.

Manoj Garg Okay. The second thing, like if you look at your top 10 brands portfolio, where the dependency of the company is relatively higher as compared to many of the other large players. That's indicative probably off late whatever are the new products that we introduced in the domestic market, they have not been very successful or have not been able to ramp up the market share. So are we really addressing this new products growth opportunity? Or how to really revive the market share by having more focus on new introduction and making them more successful?

Umang Vohra Yes, we are looking at them.

Manoj Garg So like what kind of run rate we are looking in terms of launching new products?

G V. Prasad I think run rate is not relevant. We are looking at therapy gaps, looking at product positioning. They are not driven by numbers of launches.

Bino Just a follow-up question on Russia. Now the constant currency 30% growth that you said, it is in U.S. dollar or rubles?

Umang Vohra Dollar terms, Bino.

Bino Constant dollars.

Umang Vohra It is constant dollars.

Bino And the reason for that is you bill the distributors in U.S. dollar?

Umang Vohra No, we bill in Ruble. If you want the ruble growth, it is 27%.

Saion Mukherjee Just on the US market and the product opportunities that you have disclosed for the next 3 or 4 years. First on lansoprazole OTC, if you can share how big that opportunity is. And you also listed quetiapine IR. What makes you think that it would be a limited competition opportunity?

Raghavender R Yes. So Saion, quetiapine IR we think biostudies are quite difficult and complex, so that's the reason. Though there are many DMF filers, we think from the formulation perspective, there will not be too many players. And the

size of the molecule is about $3 billion. So that's the reason why we think that opportunity will be good.

Umang Vohra On lansoprazole, I think the Rx market is roughly, you could say, $200 million to $250 million. So we expect the transition to OTC to be still probably marginally lower.

Sameer Just a quick clarification on Zyprexa ODT. If I'm not wrong, according to IMS, the size of the market is about $360 million and so has been expressed in Par Pharmaceuticals press release. So you mentioned $80 million. Is it about you being co-exclusive on this particular strength or how do we reconcile the two numbers?

Umang Vohra So Sameer, the data with us suggests $87 million is the brand market size. So maybe we can connect post the call just to understand what your data source is, but we are looking at $87 million as the brand size on ODT.

Kedar Upadhye Thank you all for joining Dr. Reddy's senior management for this earnings conference call. In case of any pending clarifications, please feel free to get in touch with the Investor Relations team. Thank you, and good-bye.

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