Dr. Reddy's Laboratories Limited

Q2 FY21 Earnings Conference Call

October 28, 2020

Moderator: Ladies and gentlemen, good day, and welcome to the Dr. Reddy's Q2 FY21 Earnings Conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Agarwal. Thank you, and over to you, sir.

Amit Agarwal: A very good morning and good evening to all of you and thank you for joining us today for the Dr. Reddy's earnings conference call for the quarter ended September 30, 2020. Earlier during the day, we have released our results and the same are also posted on our website. This call is being recorded and the playback and transcripts shall be made available on our website soon. All the discussions and analysis of this call will be based on the IFRS consolidated financial statements.

To discuss the business performance and outlook, we have the leadership team of Dr. Reddy's comprising: Mr. Erez Israeli, our CEO; Mr. Saumen Chakraborty, our CFO; and the Investor Relations team.

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

Now, I hand over the call to Mr. Saumen Chakraborty. Over to you, sir.

Saumen Chakraborty: Thank you, Amit. Greetings to everyone. I hope all of you are keeping safe and healthy.

I'm glad that we continued with our momentum of new product launches, productivity improvement and strengthening up COVID-19 portfolio, while delivering the promise of serving our patients unabatedly even during these challenging times. The current quarter was witnessed with strong sales growth across all our key markets. Healthy gross margins, significant leverage benefit on SG&A, which resulted in a healthy EBITDA and profit margins.

Let me take you through these in a bit more detail. For this section, all the amounts are translated into U.S. dollar at a convenience translation rate of Rs. 73.54, which is the rate as of 30th September, 2020.

Consolidated revenues for the quarter stood at Rs. 4,897 crores, that is $666 million and grew by 2% on a year-on-year basis. The year-on-year growth adjusted for proprietary products out-licensing income of Rs. 723 crores recognized in the same quarter of the previous year stood at 20%. Growth is primarily on account of new product launches across market, volume traction in base business and integration of business acquired from Wockhardt. Our NAG business grew by 28%; Europe business grew by 36%; India business grew by 21%; emerging markets business grew by 4%; and PSAI business grew by 20%. Sequentially, our revenues grew by 11%, supported by gradual improvement in the volume pickup in India, Russia and other markets, new

product launches and full quarter impact of the business acquired from Wockhardt. Sequentially, we saw 46% growth in India; 6% growth in both in NAG and Europe; and 8% growth in Emerging markets.

Consolidated gross profit margin for this quarter has been 53.9%. Although, on a reported basis, it declined by 360 basis points year-on-year, adjusted for out-licensing income during previous year, there has been an increase. This increase was driven by improved productivity, forex benefits and product mix, partially offset with price erosion. Sequentially, margin declined by 210 basis points due to lower export incentives, adverse forex rates and product mix. Gross margin for the global generics and PSAI were at 59.4% and 26.8% for the quarter.

The SG&A spent for the quarter is Rs. 1,311 crores, that is $178 million, a decrease by 1% year-on-year and an increase of 3% quarter-on-quarter. The sequential increase is primarily attributable to incremental costs arising with the integration of acquired business from Wockhardt and increased sales and marketing related activities post unlock. Freight cost has shown a reducing trend post unlock with improvement in carrier availability. However, so far as productivity is concerned, SG&A as a percentage of sales at 26.8% reflects an improvement of 80 basis points year-on-year and 200 basis points quarter-on-quarter.

The R&D spend for the quarter is Rs. 436 crores that is $59 million with an increase of 19% year-on-year and 10% sequentially. The spent is in line with the increase in the number of R&D projects including development of COVID-19 product. As a percent of sales, however, R&D was at 8.9% of sales.

The EBITDA for the quarter is Rs. 1,267 crores that is $172 million. EBITDA margin is at 25.9%, surpassing our aspirational target of more than 25%. Profit before tax for the quarter is Rs. 862 crores that is $117 million with a year-on-year growth of 12% and a sequential decline of 2%, after absorbing an impairment charge of Rs. 78 crores on certain products in line with the requirement of the accounting standard.

Effective tax rate for the quarter is at 11.6%. The ETR has been lower due to recognition of deferred tax asset for one of our subsidiaries. We expect the ETR to be around 25% for the full year as alluded earlier.

Profit after tax for the quarter stood at Rs. 762 crores that is $104 million, which is 15.6% of the revenue. Reported earnings per share for the quarter is Rs. 45.83.

Operating working capital increased by Rs. 21 crores, which is $3 million. There has been an increase of Rs. 200 crores each in the receivables and the inventory, which are in line with the growth in business, which are partially offset by the increase in the trade payables. However, when we measure working capital in number of days; that has improved by five days. We invested Rs. 250 crores, which is $34 million towards capital investment in this quarter.

The free cash generated during this quarter was Rs. 603 crores, which is $82 million. Our net debt as on September 30, 2020 was Rs. 136 crores. Our net debt-to-equity ratio is at 0.01 and continues to reflect our strong balance sheet position.

Foreign currency cash flow hedges for the next 11 months in the form of derivatives for U.S. dollars are approximately $305 million, largely hedged around the range of Rs. 74.4 to Rs. 76.7 to the dollar. In addition, we have cash flow hedges of RUB 2.1 billion at the rate of Rs. 1.031 to the ruble maturing over the next nine months.

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

Erez Israeli: Thank you, Saumen. Good morning and good evening to everyone. I hope you and your families remain safe and healthy during these difficult times. I am pleased to see our employees and business partners have responded to the current challenging environment that came up with innovative solutions with speed and agility to ensure that we continue to serve patients across our market. I want to thank them all.

We continue to progress well on our transformation journey with consistent improvement in performance across all financial and health parameters. We have yet again delivered strong financial performance this quarter and recorded the highest ever quarterly sales of Rs. 4,897 crores, healthy EBITDA margins of 25.9%, annualized ROCE of 23.6% and consistent generation of free cash flows. The strong balance sheet position and low level of net debt give us reasonable headroom to invest for future growth.

Despite COVID-19 impacting fundamental demand, we saw healthy growth across all our businesses during the quarter. The market demand in India, Russia, and other branded markets has witnessed sequential improvement. However, it is yet to fully recover to pre-COVID levels. The quarter was supported by new products launch momentum across the market, strong pickup in the sales of brands acquired from Wockhardt in India, and overall cost leverage benefit.

We continue to progress well in line with our strategy and believe that we are moving in the right direction with diversified levers of future growth on the back of expansion in market share across key markets, and further improvement in productivity.

We have also progressed in our effort toward this global fight against COVID-19. As you are aware, we entered into a deal with RDIF, Russia for Sputnik V vaccine to conduct clinical trials and distribution in India. We are going to initiate combined Phase II and III clinical trials for the vaccine's candidate very soon. In addition to that, we are working towards the development and launch of multiple products as treatment options for COVID-19 in our various markets.

Now, let me take you through the key business highlights for each of our businesses. Please note that all the reference to the numbers in this section are in respective local currencies.

Our North America Generics business recorded sales of $247 million for the quarter with a strong growth of 22% year-over-year and 8% on a sequential quarter basis. The growth was

supported by new product launches offsetting the lower volume uptake in select molecule segment, impacted by lower doctor visits and elective procedure in the hospital. We launched nine products during the quarter including some limited competition products such as first-to-market product ciprofloxacin dexamethasone otic suspension, OTC diclofenac gel, OTC olopatadine eye drops. With strong new launch momentum witnessed in H1, we are well on track to launch more than 30 products during this fiscal exceeding our initial expectation of 25 launches. We believe that the H2 is likely to remain busy in terms of launches and we would also include few niche and limited competition products.

Our Europe business recorded sales of €43 million with strong year-to-year growth of 22% and sequential quarter growth of 2%. The growth was driven by new product launches seen across the markets. During the quarter, we launched three products in Germany and one product each in the U.K., Italy, Spain, and Austria. In line with our strategy to expand our presence across Europe leveraging our deep pipelines we forayed into Austria market in the current quarter beyond our EU5 countries.

Our Emerging markets business recorded sales of Rs. 864 crores with a year-on-year growth of 4% and sequential quarter of 8%. Within the emerging markets segment, the Russia business grew by 4% on a year-to-year basis and 26% on the quarter-to-quarter basis in constant currency. The market demand has been gradually improving after COVID-19-related decline witnessed in Q1. We also saw similar improvement trends in our CIS markets. Our business in China also continued to perform well in this quarter. During the quarter, we launched 28 new products across emerging markets.

Our India business recorded sales of Rs. 912 crores with a year-over-year growth of 21% and a sequential growth of 46%. The strong growth in this quarter was supported by sequential improvements in the market demand after a lighter Q1 due to COVID-19 related lockdowns. The sales was also supported with strong contribution made by the business acquired from Wockhardt which has been performing quite well and ahead of internal expectations. We launched seven new products in the India market including the two COVID-19 treatment drugs; Avigan or Favipiravir tabs and Remdesivir injection.

Our PSAI business recorded sales of $115 million with a year-on-year growth of 14% and sequential quarter growth of 1%. We believe this continued strong demand was in part due to higher API inventory level being carried by our customers to prepare for any potential COVID-19-related disruption. This demand is likely to get normalized in the coming quarters as inventory catches up with end consumption. However, we expect this business to be a key growth driver supported by our focus on new product development, improvement in cost position, and tailwind due to evolving market dynamics.

On the R&D front, we continue to strengthen our pipeline of products across the markets. During this quarter, we filed 27 formulation products across global markets including two ANDAs in the United States. As of September 30th, 2020, we have 94 cumulative filings pending for approval in the U.S. FDA including 92 ANDAs and two 505(b)(2) NDAs. We also filed 39 drug

master files globally including one filing made in the U.S. market. We have significantly strengthened our development pipeline across markets including development for multiple products related to COVID-19. In the coming months, this will increase our investment in R&D and accelerate our submissions of new product filings.

On biologics front, the Phase III trials for Rituximab is progressing well. In parallel, we are working on the next wave of biosimilar products which are at different stages of development.

On our proprietary business, we continue to actively progress toward building a sustainable globally relevant pipeline. Simultaneously, we are continuing our effort to monetize select assets through partnership and licensing transactions that maximize their value.

We continue to progress on our growth agenda complemented by inorganic moves. After the successful integration of the business acquired from Wockhardt, we continue on our journey to evaluate more opportunities to help us achieve our strategic priorities. Having sailed successfully over the last two quarters in the current volatile market environment, we remain committed to do our best and meet expectations of all of our stakeholders.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: So, my first question is if you could help us understand the volume or the market opportunity for Remdesivir and Favipiravir?

Erez Israeli: Yes. Remdesivir, we built certain capacities for India. So, currently, we are marketing it in India, and it is going very well. And we are expanding our capacity, ability to help both increasing demand from India as well as from other emerging markets. As for Favipiravir, we have set of clinical trials on top of what the originator Fuji of this product. So, we have now trials conducted in the Kuwait as well as in the Emirates and additional trials will be conducted in the U.S., Canada and India to allow us a variety of potential data as well as indication. And we will try to seek emergency use authorization if the data of course will support it.

Prakash Agarwal: Fair enough. But just if some color could be given in terms of volumes that you are selling currently or some data what is the market share you would have in Remdesivir that would be helpful?

Erez Israeli: We are not disclosing that at the moment.

Prakash Agarwal: Okay. Fair enough. So, sir second question on the gross margin understanding. So, you clearly mentioned that export incentive is partly the reason and price erosion. So, what our understanding is only the September month it was not there. So, have we accounted export incentive till August? And how do we account going forward since there's a statement by the

Ministry that there would not be any export incentive going forward. So, how do we look that and what is the outlook on the gross margin both for global generics and the PSAI business?

Saumen Chakraborty: So, you're right. In this quarter, it was one-month impact that is September. And starting from next quarter onwards, it will be a full quarter impact of the export incentives. So that has some impact in the gross margin going forward. And I clarified that if you look at year-on-year and quarter-on-quarter on a like-to-like basis, if you compare year-on-year, last year definitely gross margin was very high beyond the normal range that earlier I alluded to. So, if you look at multiple quarters over the years, if you see our gross margins, there would have been always fluctuation quarter-to-quarter. But there is a kind of a range which we will feel is a normal range. One odd quarter because our exception goes higher than that, may be one-odd quarter it could be worse than that. I believe 53.9 is very much within the normal range. Sequential decline, yes, some part is also for the forex. In the Q1, U.S. dollar was more than Rs. 75 and now it is Rs. 73.5, so that has an impact. That's one month of this export benefit withdrawal, it has an impact. And of course beyond that there are so many multiple factors which is that we include product mix, business segment mix everything, so fluctuations are bound to be there. It's very difficult for us to give any kind of specific outlook. But all that we can say is that we have continuous effort to not only improve productivity, which is in the SG&A line or other overheads, but also improving the cost of revenue. That effort is being continued.

Prakash Agarwal: Okay. So what I understood was the normal range would largely be maintained despite the export incentive for the full quarter being not there going forward? Would that be correct understanding?

Saumen Chakraborty: No, I said 53.9 also is in the normal range. I say so far as export incentive is concerned in this quarter; this was one-month impact. And this is not only for us. This is withdrawn by the government earlier one thought that was supposed to be in December end, which has started in September and going forward this will become a normal phenomenon. That means, the export incentive will not be there. So our effort will be to what extent you can neutralize by improving in terms of cost of revenue, how do you improve process, how do you improve yield or many other things to neutralize that.

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

Damayanti Kerai: My first question is regarding SG&A cost trend going ahead. So I understand the second quarter reflects impact of, I'll say full integration of Wockhardt's portfolio. And now with things opening up in Indian market, we assume there will be incremental cost coming up on the marketing and promotional side. So how do you see SG&A costs moving in coming quarters?

Saumen Chakraborty: So first we have been able to contain a lot of costs because on manpower costs front, I think the contentment is quite good. And in terms of SG&A as a percentage of sales, you get a leverage if you are getting more and more sales. And this quarter has been very good on sales and like-to-like as I already told, it is around 20% growth. If that happens, then SG&A productivity improves definitely. Yes, you are right on an absolute basis, the more we start spending on

marketing and sales, on an absolute term, SG&A may increase, but our effort would be always how do we keep on improving the SG&A productivity.

Damayanti Kerai: Sure. Thanks for that response. And my second question is regarding the update on recent cyber-attack. So after this incident, do you believe you need to invest more in resources to secure up your system? And what kind of investment you are looking up there?

Saumen Chakraborty: So we have been building up both in terms of digital initiatives, increasing our digital footprint, as well as all the information security measures. So there have been always attacks which would have been happening and to a great extent, we have been able to ward off most of them. But in this particular case, the cyber-attack happened. And as we have already given to the stock exchange our notification, we took, as I believe, the right kind of steps in terms of isolating the impacted IT service part. And then taking help of international experts in cyber security to really contain and restore from our backup very systematically in a very controlled manner and very cautiously. And by this time, most of the critical applications have been enabled and are being enabled also. But at any point of time, nobody can take things in a complacent manner. So far as cyber-attack is concerned, it's an ongoing effort by whoever wants to do anyway. But yes, we have been doing in the past, we are doing more heightened surveillance at this point of time and we'll continue to do, but it's not always a matter of investment, whereas always you can reduce the chance, but you cannot eliminate the possibility. So no matter what you invest. It is almost like zero defects that we target, but that's an ideal. The more you improve your Sigma level, the possibility of defects per million comes down. Same way we can get some comfort of whatever the security that we can build, but you can only minimize, but you cannot possibly eliminate, because there are so many things which are happening on in terms of creating newer and newer scales and other way of attacking.

Moderator: Thank you very much. The next question is from the line of Neha Manpuria from JPMorgan. Please go ahead.

Neha Manpuria: Just to delve a little bit more on the SG&A spend, I understand your outlook. But if I look at the spend in this quarter versus the last quarter, given we have the Wockhardt integration and normalization in our branded businesses to some extent. Could you explain the reason for such a moderate increase on an absolute level? I understand the operating leverage, but what helped offset the increase that we saw because of the other two factors?

Saumen Chakraborty: The broad, as I told that we have been able to contain various components of the SG&A cost. And specifically, when you do things more digitally and virtually, then the sales and marketing expense will be a little bit lower. But there has been already a sustained effort on improving containing cost. This has been going on. And we can only disclose as much as we can. So I don't know. The freight which went up sharply in the previous quarter, there has been a little bit reduction, which I have already said in my script.

Neha Manpuria: Understood, and so the digital marketing, which helps control cost, that should be sustainable, right? Or do you see this more as the markets are opening up, probably we go back to physical marketing?

Erez Israeli: Yes. So we are going to be more productive and we're going to use more digital marketing, absolutely, going forward. So we are actually even at the beginning of the journey. And I do see ourselves even increasing the level of digital marketing. And some of which will be on the expense of the, let's call it, a better marketing practice. So more and more, we are going to be more and more digital and more productive on the SG&A.

Neha Manpuria: Understood. My second question is on the ROW market. If I exclude Russia CIS, there seems to be a moderation quarter-on-quarter. Was there any specific reason for that?

Saumen Chakraborty: There have been some countries like Vietnam, Jamaica, where the sales have been lower in this quarter.

Neha Manpuria: But a 20% decline quarter-on-quarter?

Saumen Chakraborty: Yes. It has happened.

Erez Israeli: Some of the smaller markets are dependent on specific products that sometimes tenders of hospitals and stuff like that**.** Some of those markets were affected also by COVID. So overall, I think we have a very healthy performance in the emerging markets. I'm actually very pleased, given the challenges that were in this quarter in some of these markets.

Moderator: Thank you. The next question is from the line of Nithya Balasubramanian from Bernstein Research. Please go ahead.

Nithya Balasubramanian: My question was on the Sputnik-V vaccine and the trials you're now conducting in India. If you can help us understand what's the size of the patient pool of your clinical trial? And any visibility you can give us on timelines as to when the clinical trial results would be available and then you could launch the product?

Erez Israeli: So everything is tentative because we need to be also successful with the trials. We are talking about Phase II, which is about 100 patients, which will start very soon. And about 1,500 that will be on top of the trials that are conducted in Russia or the global trial for India, which will be conducted right after with of course of the approval authorities. If everything will go well and, of course, it's a big IF because many things need to go right, it can be as soon as end of March. But, of course, it can also be, after that, it depends, of course, on the relevant results, as well as the requirements of the authorities.

Nithya Balasubramanian: Got it. So the 40,000 patient clinical trials that RDIF is conducting, what is the visibility on the trial readout for that Phase III trial? How is it…?

Erez Israeli: What we have is the relevant part of the India arm of test, it's on top of what they do in the global trials.

Nithya Balasubramanian: I understand. But I thought you mentioned that this data will be kind of a bridging study over and above the data that you will have from the large-scale clinical trial. Would you need both for an approval in India?

Erez Israeli: Yes, we will have to have both.

Nithya Balasubramanian: Hence the question is, is there any visibility on when there might be some data coming out of the larger Phase III clinical trials?

Erez Israeli: I don't have a specific date on that, but what I gave you as a best-case scenario apply to that.

Nithya Balasubramanian: Got it. Just one more related question. On the 100 million doses that we saw in the press release that you will be able to supply of this vaccine, has capacity is actually being identified.

Erez Israeli: Yes, we are working on it. And I hope that it will be ready by the time that we can commercialize the product.

Nithya Balasubramanian: So assuming everything goes well, and you have the right data and you have the approval by March, you will have capacity scaled up to 100 million doses? Or would that happen over a period of time?

Erez Israeli: We will have a capacity that we will build over time. At that point of time, we will not have 100 million available. It will come in a certain space over the time.

Moderator: Thank you. The next question is from the line of Kunal Dhamesha from Emkay Global. Please go ahead.

Kunal Dhamesha: So first question is on the Wockhardt business, now that you have integrated it for full one quarter, so any synergy potential that you've identified because there is a lot of portfolio overlap that we have in terms of acute therapy?

Erez Israeli: I'm very pleased with this integration, as well as from the product, as well as from the people that join us from Wockhardt. So I think we discussed in previous meetings, the Wockhardt deal gives us both synergies on both topline and bottom-line and we are actually now executing on both. So we can sell more in less cost.

Kunal Dhamesha: What would be our current sales force in India?

Erez Israeli: We are not discussing numbers of people. Sorry?

Amit Agarwal: It will be around 6,500.

Erez Israeli: The overall, 6,500 people.

Kunal Dhamesha: Okay, thank you. And the second question is on the Europe. We have seen significant growth in Europe in this year and that's driven by new product launches and new geographies. But if you can provide some color in terms of how much runway do, we have in terms of new product launches? So I suppose we have x product right now in the EU5 market, can we go to 2x or 3x in next 3-4 years or maybe it is 5x and will all those products be from our U.S. portfolio or whatever we are developing globally? If you can give some color on that?

Erez Israeli: Yes. The color is that we just started to have fun in Europe. I believe that we will grow much, much more. And we are just in the beginning of inaudible we are not giving guidance for the future. Naturally, our base is now very low and there is a lot of room for us to grow in Europe.

Kunal Dhamesha: Okay. And any qualitative commentary on margins on Europe business whether they will be in line with company margins or…

Saumen Chakraborty: No, we don't disclose that.

Moderator: Thank you. The next question is from the line of Tushar from Motilal Oswal. Please go ahead.

Tushar Manudhane: Yes. Just extending to the Europe question now there is another wave of COVID. So do you see any near-term impact on the business?

Saumen Chakraborty: Another wave of COVID in Europe.

Erez Israeli: I hope not. And so far, I do not see any impact on the business.

Tushar Manudhane: Got it. Sir, just on the balance sheet side, the other intangible assets compared to FY 2020, there is a sharp increase. So if you could just explain that?

Erez Israeli: Sharp increase in what sorry?

Tushar Manudhane: Other intangible assets line item on the balance sheet.

Erez Israeli: This is Wockhardt deal.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: My first question is on generic Vascepa. If you could just share with us your commercialization plans, when do you expect to launch, some favor around what's holding you back would be great? Thanks.

Erez Israeli: We are gearing up for the launch. And when we are ready, we will launch it.

Sameer Baisiwala: What's the key bottleneck for the launch because you've got the approval, you've got the court decision. It's been a few months but still not in the market?

Erez Israeli: We are not ready to launch that what is keeping us from launching it.

Sameer Baisiwala: Okay cool. No worries. Sir the second question is on your Revlimid settlement. I don't know how much you can share. But the other two settlements which was Natco and Alvogen, they had given some sort of a flavor around the entry and the exit market share between 2022 and 2026. Is there some color that you can share even qualitatively would be great because it's a big product?

Erez Israeli: No, we cannot share specific numbers because it's a part of what we discussed in the past. But let's say that I am very pleased with the settlement.

Sameer Baisiwala: And with your permission, one more question and that's around Sputnik-V vaccine. Sir will the vaccine require any specialized distribution in terms of refrigeration. And second is some states have made announcement of giving free vaccines. So, will that have any commercial implications for you?

Erez Israeli: These products will require cold chain supply chain as this product needs to be kept in a very low temperature. So, yes, absolutely, it's a consideration for this product. As for any commercial arrangement, we did not discuss and we're not discussing any of this at this stage. What we are focusing on is to prove that the product is with the right efficacy and safe. Once we can prove that we will worry about prices and commercial terms. Right now, we are not discussing.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

Vishal Biraia: Just to continue on the Sputnik-V, what would be the spend on trials that we plan to conduct for the vaccine in India?

Erez Israeli: We are not sharing specific numbers. What I can say that R&D is going to increase in the next six months, not just because of Sputnik, but also on other COVID-19 products that we are bringing. At the same time, I think we will be able to contain this cost by improving on the other parts of the business. So, it's something that will be I think can contain it easily.

Vishal Biraia: And one question on the United States. So, if we exclude these nine launched products that we launched in the second quarter, how would have the base business behave? Some perspectives on this could be helpful.

Erez Israeli: In general, it behaved well. Overall, if you look at prescriptions and you can see products in IQVIA, you see that in certain molecule demand was down, overall, primarily because of the way the market is behaving at the time of COVID, ability of patients and doctors to meet etc. So, we do see in some molecules less demand, we've seen some molecules more demand. And

overall in accordance to at least what I see and also what we feel as well that we increased market share. So, it is going well of course.

Vishal Biraia: The price erosion for the base business would be mid to high single-digits somewhere there or better than that?

Erez Israeli: We are not discussing specific prices for products or sub-segments of product. But overall the price pressure is more moderate this year than it used to be in the years before, but it will always be there. And this is also the case for this year.

Vishal Biraia: And just last question on PSAI, on the API business, what would be the contribution for the COVID-related products in the API business?

Erez Israeli: Not much. We are producing the API for some of them, but it's not a big contribution. Most of the growth comes from let's call it the normal products that we have, and the growth is attributed to the efforts that we did in the last two years.

Vishal Biraia: And how has been the pricing for APIs, some perspectives?

Erez Israeli: You're asking about pricing of the API?

Vishal Biraia: Yes sir. When we had the pandemic, there was a tight market. So does that continue? Is there a price variance currently as well? Some views over there.

Erez Israeli: I think that at the beginning of the pandemic, there was a bit more orders of this product as for companies that prepared themselves for potential scenarios. This got normalized by now and that's how we see it also going forward.

Vishal Biraia: So, do you think the 20% year-on-year growth run rates continuing for the second half as well?

Erez Israeli: I believe that in the second half, we will not see the impact of accumulation of inventories. We will see the normal growth that comes. So we will not see maybe the full effect. We see some of this effect.

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

Surya Patra: Sir, is it possible to have a sense, what is the kind of contribution that we would have seen from the COVID portfolio sequentially, because the sequential domestic growth looks really strong, almost like 46%. Even if we adjust for the Wockhardt, this thing, it is near about 27-odd-percentage kind of. Obviously, there would be a recovery in the domestic market, but if you go by the AIOCD data that suggests a muted growth rate. So is it fair to say a kind of meaningful contribution from the COVID portfolio for the domestic growth this quarter?

Erez Israeli: So COVID helped, but I would not say that it's the more significant growth. I think, all of the businesses perform as well together. So it was a combination of the fact that there is a recovery

in the market. As you know, the type of portfolio that we had suffered more during the lockdown, so now the lockdown was open, it absolutely helped us, as well as Wockhardt, as well as the COVID product. So it's the combination of the three of them.

Surya Patra: If I just take that same question for regards U.S., so then I think, obviously, the growth number for the quarter look really strong and great. To some extent of this, the base effect is also there. But curious, if you can give us some understanding that, okay, you have a kind of or what would be your oncology portfolio revenue sale in the U.S.? And since there are studies, they say that because of the COVID, the oncology products witnessed a kind of 30%-40% kind of decline over last four, five-month period. So what would is the kind of impact that you have witnessed, despite which you have delivered this kind of growth?

Erez Israeli: Indeed some of the injectables that we have had less demand, not just by the oncology, it can be other hospital-related products that we did see some lesser demand due to COVID. Overall for us, between the market share and new products, we were able to overcome or compensate for some of those declining in certain demand of products, as well as for the relevant price decrease. So more volume share, more new products, compensate for price as well as less demand in certain products, including some of these injectables.

Surya Patra: Just last one question, sir, on the vaccine side. So if you can provide some idea that, say, so far as the commercial launch of the product is concerned. I think, government is indicating about distributing the vaccine or vaccinating or running a vaccination program only through government agencies and the procurement to be through government agencies only. In that case, do you expect having seen or knowing the fact that there are multiple domestic leading players are there who are manufacturing and almost hoping to launch. So in that scenario, if they're in thinking about introducing the product in the domestic market, there is any kind of business scope for domestic market?

Erez Israeli: So you asked about the vaccines correct?

Surya Patra: Yes.

Erez Israeli: Vaccine is only for the domestic market. We don't have it for other markets. So, yes, I believe that there is a great need for this. And I do hope that we will prove that the product is safe and with the right efficacy. I don't see any competition on that. So I'm not sure what kind of competition you related to.

Moderator: Thank you. The next question is from the line of Surajit Pal from Prabhudas Lilladher. Please go ahead.

Surajit Pal: Could you please tell me, the API manufacturing is the main issue for Vascepa, as well as some litigation issues where some liability could come into picture given that what has happened in other cases in various verdict?

Amit Agarwal: Surajit, you're referring for which product?

Surajit Pal: Vascepa.

Erez Israeli: I'm not commenting on the activities on this product. What I said before, we are preparing for the launch and we will launch when we are ready.

Surajit Pal: So could you throw some light on when could be that possibility three months-six months?

Erez Israeli: Not really. I'm not planning because you can understand that it's a sensitive information.

Surajit Pal: Okay. Another question is about your Favipiravir in U.S. So currently, I believe ongoing trials. So any development on that?

Erez Israeli: Yes, we are accumulating the data and we will try to seek Emergency Use Authorization in the United States. And if not, we will try to go to in the normal patterns of registering the product. I hope that we will be able to do so.

Surajit Pal: Any timeline on that? Could you throw some possible timeline?

Erez Israeli: I don't have the timelines. There are ongoing discussions with the authorities about the type of data they want to see in order to allow Emergency Use Authorization. And we are trying to send this data. Everything that we are discussing will happen within the next few months anyway. But I don't have a specific date within that.

Surajit Pal: Alright. With your permission, just last question. Is that your $100 million budget for Sputnik-V trial, is it budgeted for FY 2021 only?

Erez Israeli: I never said...

Surajit Pal: Or is it across FY 2021 and 2022 together?

Erez Israeli: We never put numbers for the R&D expenses. 100 million refers to the number of injections that we are getting as a quota from the Russians. That are the numbers we got licensed to market in India. We never discuss the R&D budget.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Yes, thanks for the opportunity. Sir I'm just trying to understand the gross margin of global generics business. We have seen a sequential decline of 200 basis points on global generic, whereas we have very large two activity, which has actually got added. So one is the sharp increase in the domestic business. And second is the launch of products in the U.S. 180-day exclusivity. So both be should have meant that the gross margin at least on the global generic should have been far higher sequentially, but versus that we are looking at a 200-basis point decline. So what is that I'm missing here? If you can explain that will be great.

Saumen Chakraborty: So I have already said three distinct reasons. One is lower export incentive because one-month impact is there. Secondly, adverse forex rate. Last quarter, it was 75 or so. This quarter, it is 73.5. So forex rate is at first impacting. And third is the product mix.

Nimish Mehta: But does the forex really reflect the gross margin or it is below gross margin that is captured?

Saumen Chakraborty: So some impact is there in terms of margins.

Amit Agarwal: Yes. So the forex impacts the gross margin in the sense the sales basically comes down, most of our sale happens in U.S. dollars. So as it comes down, then the impact flows to gross margin also. And ruble has further been impacted this quarter. So that impact is also there.

Nimish Mehta: Okay. So from an impact perspective, is forex the largest reason why this has happened? I mean I'm seeing two very strong wins. One is the domestic business, which is sharply up and second is Ciprodex. I am just trying to still understand like can the same elements that you mentioned the factors, you mentioned, are they sufficient to compensate for the increase?

Amit Agarwal: Yes. Other than this also, there are other products, which has impacted. So these two have contributed positively, but there are factors which have contributed negatively. So there is an overall product mix where we see.

Nimish Mehta: And second, I just want to note, there is a product Remodulin, where I think we already have an approval. And I don't think we have been litigated. So what is that stopping us from launching the product? I understand it would be an important product for Dr. Reddy's given that low competition?

Amit Agarwal: Yes. So there are certain activities which are pending. So maybe once we complete those, then we will launch the product.

Nimish Mehta: I see. Any timeline if you can give that will be great.

Amit Agarwal: As of today, we don't have any specific timeline, but once we have a little bit more clarity, we will revert on that.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: The first one is on the regulatory inspection outlook. Have you started seeing the FDA starting to inspect at least some of your global plants like the plants in the U.S.? And from a calendar year 2021 perspective, what do you think some of these changes that companies need to adopt while having to do these regulatory inspections?

Erez Israeli: So, as for the U.S. FDA, we did not have inspections outside of India. And as for other agencies, some of them are performing remote audits and that's the preparation people needs to do to either obtain data or having audit remotely meaning use cameras or using other means to present to the

auditors and give the information that they need. This is a certain adjustment that we are doing for some agencies.

Shyam Srinivasan: For next year, do you think the virtual audits could remain in terms of proportion or in terms of criticality of plants that we need physical inspections versus others could just keep doing virtual audits, is there some qualitative sense ready?

Erez Israeli: It is up to the agency. Some agencies already doing, and we even experienced some virtual audits, and some don't. So, it's up to them. I believe that COVID-19 unfortunately is here to stay for the foreseen short-term. So, people will have to take those decisions. And right now I believe that the inspections if will happen will be virtual by and large.

Shyam Srinivasan: Alright. Thank you. And my last question is on China business. I think these 20 products in all emerging markets what have we done in terms of the China market this fiscal so far? And the experience of selling clopidogrel if you can actually walk us through that as part of the GPO? Thank you.

Erez Israeli: Yes. So, we are continuing with the strategy and actually executing well against including the products that you've mentioned. We are not giving number specifically for a product. But the strategy the way we articulated is working for us. And our China business is growing including the products that we get to the GPO like Olanzapine. So in that respect, it is going well for us. So, we continue to do both submissions as well as to focus on those products that are not commercial for us.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to Mr. Amit Agarwal for closing comments.

Erez Israeli: So, just before Amit will finish, I want to this audience to thank Saumen that is not leaving Dr. Reddy's, but he in next month is going to retire and after 19-plus years in Dr. Reddy's and will continue to be with Dr. Reddy's after that. And I want to, this audience, to thank you all for collaboration with him and thank him in front of you for an excellent service with Dr. Reddy's. And thank you so much for your collaboration all these years with us and I hope you'll continue to do that.

Amit Agarwal: Thanks everyone for joining us today for the earnings call. In case of any further queries, please reach out to the Investor Relations team. Thank you.

Moderator: Thank you very much. On behalf of Dr. Reddy's Laboratories Limited that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may now disconnect your lines.