

Dr. Reddy's Laboratories Limited

Q1 FY06 Results Earnings Call

July 26, 2005

Moderator: Good evening ladies and gentlemen. I am Prathibha, the moderator for this conference. Welcome to Dr. Reddy's Laboratories first quarter Fiscal Year 2006 Q&A conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, we will have the question-answer session for participants connected to the SingTel bridge followed by the Q&A session for participants at WebEx International Bridge, and then a Q&A session for participants connected to WebEx India. I would now like to hand over the floor to Mr. Nikhil Shah of Dr. Reddy's Laboratories. Thank you and over to Mr. Shah.

Nikhil Shah: Thank you Prathibha. Good morning and good evening to all of you. I am Nikhil Shah, the Investor Relations Officer at Dr. Reddy's. I thank you for joining us to discuss Dr. Reddy's financial results for the first quarter Fiscal Year 2006. By now you would have seen the press release as well as the additional financial disclosures, which were released earlier this evening. The results are also posted on our website on the home page under the quick links icon.

To discuss the results, we have on the call today, GV Prasad, our Chief Executive Officer, Satish Reddy, the Chief Operating Officer of the company and Vasudevan, our Chief Financial Officer.

Please note that all the discussions and comparisons during the call will be based on U.S. GAAP numbers and the IR desk will be available to answer any queries relating to the Indian GAAP immediately after the conclusion of the call.

To ensure full disclosure, we are conducting a live webcast of this call and a replay of the call will also be available on our website soon after the conclusion of the call.

Additionally, the transcript of this call will also be available on our website under the quick link icon. Please note that today's call is copy-write material of Dr. Reddy's and cannot be rebroadcast or attributed in press or media outlets without the company's expressed written consent.

Now, the Safe Harbor statement. I would like to remind you that the discussion and analysis during the duration of the call might include forward-looking statements as defined in the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. Such statements involve known and unknown risks, uncertainties, and other factors that may cause actual results to differ materially. Such factors include but are not limited to changes in local and global economic conditions, our ability to successfully implement our strategy, the market acceptance of and demand for our products, our growth and expansion, technological change, and our exposure to market risks. By their

nature, these expectations and projections are only estimates and could be materially different from the actual results in the future.

And now, to get started, let me turn the call over to GV Prasad, our Chief Executive Officer.

GV PRASAD, Chief Executive Officer

Thank you Nikhil.

Good Evening to those of you in Asia, good afternoon to the people from Europe and to those of you in the US, a very good morning and thank you all for joining us on the call today. By now, most of you may have read the results and also the press note that we released earlier this evening.

We had a good first quarter with adjusted revenue growth of 15 percent to 128 million dollars and profit after tax of 8 million dollars compared to 4 million dollars last year.

The first quarter numbers have been driven by some exceptional performances in the branded formulations and the European generics businesses and a relatively flat R&D spend. Despite a strong performance in the first quarter, the year 2005-06 will be a challenging one as we continue with our investments in building the US generics business and the innovation platform in specialty and drug discovery. As many of you are aware, we are driving several initiatives to address this short-term gap in our revenue and earnings performance and I will discuss the progress on these initiatives later in my presentation.

On the first quarter performance, let's look at the factors driving the performance in each of our segments. To begin with the branded formulations business:

Revenues in this business grew by 30 percent over last year. This growth was driven by the exceptional VAT-led growth in India and some exceptional trade demand ahead of the season in Russia. Certain key international markets such as Ukraine, South Africa and Venezuela also performed strongly during the quarter adding to the overall growth.

In India, we have stepped up our investments in detailing to bring in sharper focus on driving prescription growth for key brands and therapeutic areas. We are beginning to see a pick up in prescription growth rates and the full impact of these investments will be realized over the next few quarters. We have also stepped up the pace of new product launches. As in the last year, we expect new product launches to be a key growth driver this year as well. While the first quarter does not reflect this fully, we have lined up several launches over the next few months and the full impact of these launches will be more visible in the second half.

In the international markets, while we expect the growth momentum to continue in key markets, it would only be appropriate to compare the growth on a full year basis rather than on a quarterly basis.

Revenues in the Europe generics business almost doubled to 13 million dollars in the first quarter. Let's look at the factors driving this growth. During the quarter, we benefited from the demand and supply gap situation in the market and consequent price increases for our key products of omeprazole and amlodipine. We are among the very few players in this market, who are vertically integrated on both these products and hence were able to capitalize on this opportunity. While the first quarter numbers are extremely good, our

performance in the coming months will be sensitive to the price trends for omeprazole and amlodipine. We also have a few product launches planned for UK and other European markets later this year. On the business development front, we are focusing on specific opportunities to expand our reach in the key markets of Germany, France and Italy. We are also expanding the pipeline development effort for this region, which should translate into increased filings in the coming quarters.

While on the generics business, let me also cover the decline in revenues from North America. Over the last few quarters, the competition has intensified for our key products of fluoxetine and tizanidine and this has led to a significant decline in revenues of about 41%. This impact continued into the first quarter as well. We will have to sustain the current challenges for a few more quarters. And I will discuss more on the current challenges and the outlook of this business later in my presentation.

Moving on to the API business, overall revenues remained more or less flat. The performance of other international markets helped offset the decline in US and India. We recorded a growth of about 51 percent in these markets outside US & India, led by the growth in existing portfolio as well as expansion of the new product portfolio including some unique IP-led opportunities. Even in Europe, the decline in ramipril was largely offset by the expansion of our product portfolio. We expect to continue the growth momentum in the subsequent quarters though not at the same growth rates in these markets. In North America, this year, the API business faces challenges similar to the generics business with several product launches expected over the next few years based on patent expiries.

We are clearly driving two specific initiatives which we believe will strengthen the longer-term outlook of this business: greater customer engagement across markets, which will enable the deepening of our product portfolio – both existing as well as new launches - with key customers in all our major markets. The other, of course, is the renewed focus on cost improvements, which will enable us to effectively compete in the current competitive pricing environment.

Moving on to the Custom Pharmaceutical Services business, the revenue number for this quarter is relatively low compared to the immediately preceding quarters. However, we remain optimistic of the revenue scale-up in the subsequent quarters based on the orders that we have on hand and the opportunities that we are driving with large innovator companies as well as emerging pharma companies.

The other business that the company is focusing on is biologics. As many of you are aware, this segment presents significant growth opportunities to both, innovator as well as generics companies. Currently, we are in the process of building capabilities and infrastructure to position the company to address the potential opportunities as and when the regulatory pathway for the biologics in the regulated markets is clear.

Finally on R&D, the investment for the quarter was flat at about 12 million dollars. This includes the benefit of about \$1.7 million under the ICICI R&D partnership deal. During the quarter, we filed 2 ANDAs and 12 DMFs with the U.S. FDA. In the U.K., we filed 2 product license applications under national filing system. We also filed about 159 new product registrations in various markets in our branded formulations business. The

enhanced R&D activity in the API and finished dosage businesses as well as the new initiatives will see increase in investments in the coming quarters. This increase to a large extent will be mitigated by the income under the ICICI R&D partnership deal. With respect to the additional investments required for the clinical trials of the NCEs, we are fairly confident of arriving at a suitable partnership model for funding the clinical development of our key NCEs.

With this update, I will now ask Vasudevan to discuss the financials in detail.

VS VASUDEVAN, Chief Financial Officer

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Thank you Prasad and good morning and good evening to all of you.

The note that we issued earlier this evening provides a detailed overview of our first quarter performance. Prasad shared his perspective on the first quarter performance including the business updates. Now, I would like to discuss some of the key P&L elements as well as the balance sheet items.

Let me explain the improvement in gross margins for the quarter. As you may have noted from the release, the proportion of revenues from the branded formulations business was higher compared to last year. Added to this, was the higher growth rate in international revenues leading to further increase in margins. And as you all know, this business enjoys superior gross margins. In the API business, despite a flat revenue growth, we saw a margin expansion on the back of a good product mix. In Europe generics, the steep increase in prices of omeprazole and amlodipine led to a substantial improvement in gross margins. These improvements enabled us to largely mitigate the impact of revenue decline and a corresponding margin decline in the US generics business.

On SG&A expenses, we spent about 45 million dollars in the first quarter, which is at about 35 percent of revenues. Last year, the SG&A expenses were at about 32 percent of revenues. In absolute terms, the expenses increased by about 19 percent mainly on account of higher manpower costs across businesses as well as increased marketing expenses. As Prasad mentioned, we have stepped up investments in detailing in India and this is reflected in the increase in manpower as well as marketing expenses.

Moving on to R&D line item, this quarter we invested close to 14 million dollars in various R&D projects. This was reduced by about 1.7 million dollars of income recognition under the ICICI R&D partnership deal. We invested about half of the gross R&D investments in drug discovery and specialty business. We invested a little under a third in the API and finished dosage R&D and the balance in other R&D projects.

Moving down the P&L, we recorded other income of a little over 3 million dollars in the first quarter and this was largely due to interest earnings. On the forex line item, despite the steep depreciation of pound sterling and Euro during the quarter, we were able to restrict the loss to about 1.5 million dollars for the quarter.

The profit before tax is at 9.3 million dollars as compared to 3.3 million dollars last year. This reflects a substantial improvement over last year despite higher spend in SG&A this year. Finally, the net income for the quarter was higher at 8 million dollars compared to about 4 million dollars last year.

On the Balance Sheet front, we ended the quarter with a free cash position of about \$175 million and this compares to the \$179 million at the beginning of the year. This was achieved after spending close to \$7 million on property, plant and equipment and this is likely to go up in the subsequent quarters. Some of the new projects underway include the finished dosage facility, coming up at Baddi and finished dosage facility for Oncology products.

This concludes my discussion and now over to you Prasad.

G V PRASAD, Chief Executive Officer

Thank you Vasu.

Before I conclude, let me take a minute and explain the short-term challenges that we face from a strategic perspective. The businesses of branded formulations, APIs and Europe generics performed very well in the first quarter posting a combined revenue growth of 20 percent and contributing significantly to profits. We invested a substantial portion of this in our US Generics business and innovation-led businesses of drug discovery and specialty. These investments are essential to secure the long-term revenue and earnings growth for the Company.

The generics industry in the U.S. is facing challenges at multiple levels – newer challenges presented by the innovator companies, increasing competition between large generic players to retain their leadership position and also the emerging competition from India, Eastern Europe and in the future from China.

Despite these challenges, we remain committed to build a sustainable presence in this market. We have invested in creating a very significant pipeline which will start delivering value from the next fiscal year onwards. We have mitigated the risk of pipeline building in the short-term through the sharing of risks and costs. We are also focused aggressively on partnerships and alliances to complement in-house product development for this market.

The innovation-led businesses of drug discovery and specialty are the future businesses of the company. They require significant investments and have long lead times. But as and when they mature, they have the potential to significantly accelerate the Company's growth through sustained and stable cash flows protected by patent franchises.

We are investing in building the pipeline for these businesses. In the Drug discovery business, we have 6 assets in development with DRF 10945 and RUS 3108 being the most advanced. We are preparing to move DRF10945 into Phase II clinical trials while the Phase I trials of RUS 3108 are progressing as per plan. In the specialty business, we have two interesting assets, which are likely to get into clinical development later this year. Based on successful clinical development and FDA approval, we expect the first commercial launch in the specialty business in the 2008 timeframe.

We will explore partnership opportunities to enable us to continue the advancement of our NCE and specialty assets while mitigating the risks and costs of development. In the drug discovery business, as we discussed earlier, we are working with potential partners to arrive at a suitable model to fund further development of our NCE assets. We will explore similar partnerships for the specialty business as well.

To sum up, the first quarter has seen some exceptional performances in the relatively mature businesses. Our investments in the US generics businesses as well as the innovation-led businesses will mature over the next few years. We believe that the pipeline that we have created over the last few years will start unfolding from the next

fiscal years onwards. We remain committed to meeting the objectives of the shareholders for a meaningful, profitable and sustainable overall growth in the years to come.

We now leave the floor open for the interactive Q&A session and will be pleased to take your questions. Can we have the first question...

Interactive Q&A Session:

Madhusudan: Thank you very much. Sir, my question relates to how you look at costs and the pay back from these investments that you are making. The SG&A cost has gone up again, you know, we thought there would be some stability based on what we had heard from you in the last few calls, but it has moved up very sharply. When do you think this investment actually starts paying back? That is number one. And number two, if you could throw some more clarity on how the R&D expenses could move this year, especially I am wanting to know how the \$22 odd million that you have received from the ICICI deal would be broken over the four quarters, if some guidance can be given on that that will be very helpful.

Vasudevan: Addressing your first question, as far as the SG&A is concerned there are two components to it, one is, which is totally variable to the sales growth. As Prasad mentioned in the call, there has been a 20% increase in various components of business that has a relative SG&A cost which would have increase, the other is also as we build the organization there is a certain level of inflationary growth and also skill building in the manpower, which takes on a load of increase in the SG&A cost. The third factor is of course investment which we deliberately are doing for the new lines of business as well as substantial step up in the marketing activities in the BFROW business. In the BFROW we have floated a new division which has increased the number of detailing team there that has led to this. This we expect to stabilize after a 12-month full cycle of detailing has been completed.

Madhusudan: So, should we assume that this investment that is going on currently will actually reap the real awards sometime next year in the first quarter?

Vasudevan: You are absolutely right Madhu, for the detailing team expansion we have to evaluate it after a 12-month cycle. Then in R&D, we had received about \$22.5 million from ICICI. \$2.1 million was recognized as income in the fourth quarter of last year. \$1.7 has been recognized during the first quarter. The balance is available to be recognized during the next three quarters.

Madhusudan: But we don't know how this will be broken, it could be variable?

Vasudevan: Right, it depends on our filing calendar. Once the filing is completed at the end of the quarter, we will be able to know how much we can recognize.

Madhusudan: There is just one more question relating to R&D which I had, could you upgrade on the status of the two molecules which seem to be slightly in the back burner now, the Balaglitazone and the Ragaglitazaar, is there any chance of reviving those two molecules?

GV Prasad: Balaglitazone is likely to be revived. We have regrouped data and it looks good. Ragaglitazaar, we are still reviewing the clinical data.

Rahul Sharma: Congratulations on good set of numbers sir. I just wanted some feel on, do you see the momentum sustaining during the year in the international business as well as the domestic formulation business?

GV Prasad: While overall we feel positive about the revenue growth, these two sectors you can't take it as a trend. There were some exceptional in the first quarter results. We had the VAT affect on the Indian numbers, and we also had some advanced buying in Russia. So those two segments growth will slightly be less than what it was in the first quarter.

Rahul Sharma: But you will be seeing good growth in both these segments?

GV Prasad: We are seeing positive trends in both of the businesses.

Rahul Sharma: Any new product introductions on the European side of business in the formulation as well as API?

GV Prasad: Terbinafine is a big launch for us in Europe both on the API side as well as formulation sector. Apart from that there maybe one or two launches.

Rahul: Sir, Omeprazole and Amlodipine, do you see prices sustaining, what is the reason for such a spurt in realization and do you think this can go on for remaining quarters, couple of quarters?

GV Prasad: Well, it is difficult to predict how the pricing will behave. It depends on the number of new entrants. The prices did go up because of supply shortage and some players exiting the market. So, as and when supplies come in, it is likely that prices are likely to move down.

Rahul Sharma: On the tax front sir, you all have had a deferred tax of around 73 million odd, this has been because of change in tax rates, can you please throw some light?

Vasudevan: Mostly to do with the income for the year. Based on the income for the year, we had to create this deferred tax liability.

Rahul Sharma: What type of effective tax rate you are looking at for this year sir?

Vasudevan: This year our effective tax rate based on the profit could be in the range of 15% to 20%.

Megha Lodha: Good evening sir. My question is pertaining to the para-4 challenges, how aggressive would you continue to be on this and if you could throw some light on the ondansetron?

GV Prasad: We continue to refine our product portfolio to balance between upsides of para-4s as well as predictability of regular product. So more or less we are balancing it out. Typically, on ondansetron there is nothing much to report, the hearing is complete, I

think the judge has to give his judgment on the hearing. The Teva appeal is still pending. As you know, Teva lost the case at the lower court and they went on appeal.

Ajay: Hi this is Ajay. Prasad, two questions, first is a big picture, the acquisition of Ivax by Teva, how do you see that impacting the industry and especially the Indian companies?

GV Prasad: My view is that, I think there is a space developing between the two largest players and the next tier, and I think that gives us room to grow into. There will be less competitive intensity because of two of the major players, the overlap products getting out of the market. So, overall I think I would not look at this development as a negative development for companies like ours.

Ajay: Okay. And secondly, in the last couple of conference calls, you had mentioned that the, especially the growth in SG&A will be more like inflation, and this quarter it has been almost 20%, so what is the outlook for the next couple of years?

GV Prasad: See, this quarter's numbers we have to take along with the fact that we have started a new division in branded formulations operations in India. That coupled with the freight and other associated costs with shipping larger volumes has led to increase in SG&A. In terms of pure number of people overall at the global organization, we have not stepped up anything.

Ajay: So, the Rs.195 crores is a run rate that we can look at least for the next four quarters, that is, this financial year.

GV Prasad: Yeah.

Ajay: Okay. Vasu, could you just tell the gross margins segment wise?

Vasudevan: Gross margins in the API business were at about 29%. In formulations we have about 71% of gross margins. In generics it is at about 49, and other businesses at about 52%.

Ajay: Okay, great. Thank you.

Pakhi Jain: Hello Sir. You had talked about biologics, with EMEA's guidance on these four products the path has become slightly more clearer, are there any immediate plans for DRL as far as these four products go?

GV Prasad: There are no immediate plans. Though the guidelines have come out, there are still very high barriers to entry in terms of the cost of development and clinical trials. So, we are still watching the situation.

Sandeep Bharadwaj: Hi. Prasad, just two questions. First one was about the margin, looking forward do you think there will be any room for margin improvement, if yes, to what extent?

GV Prasad: I think selectively there can be margin expansion in the generics market depending on the kind of products we launch. In API, as the proportion of the regulated market sales to the overall sales goes up there can be margin expansion, and the other businesses are at fairly high levels and they will continue at that level.

Sandeep Bharadwaj: Okay. And can you give some guidance on the top line growth for the coming quarters, do you have any percentage in mind?

Vasudevan: We generally don't give guidance on the top line growth.

Rahul Sharma: Sir, I just heard today morning that you are planning to launch some 7 products in US in FY07. Could you throw some light on the addressable market that we are looking at and are they all para-3 or para-4's also?

GV Prasad: The launches that we are planning for the next year are based on predictability, that means they will be launched after patent expiry, so they are all either para-3 or para-4s on which the patents run out.

Rahul Sharma: All the products are expiring or some of them were already expired and you plan to enter that space?

GV Prasad: No, all of them are day-one launches.

Rahul Sharma: Okay. And what is the addressable market size, innovator sales?

GV Prasad: I do not have the numbers really but they are several billions of dollars.

Rahul Sharma: The seven products, right sir?

GV Prasad: Yes.

Manish Jain: Hi, I just needed two things, one is gross margins which you highlighted segment wise, if you could give comparative for last quarter as well.

Vasudevan: The gross margins comparable in previous year for the API business was about 28%, formulation business about 67%, generics 56%, the other businesses 50%.

David: Question for you, and I apologize if you have already addressed this, but wanted to speak, if you could speak about the generic opportunity in 2006-2007 in two parts, Satish gave a very interesting presentation recently at the international generic drug symposia that spoke about 70% or more of the products going off patent in 06-07, facing 95% price degradation. One, where do you see that not occurring, in what type of markets? Secondly, do you expect the same type of price pressure to eventually evolve into other non-US markets? Third, do you expect it to migrate into the injectable market more broadly? And then I have a follow-up.

GV Prasad: Okay. The first question is where do you expect that competition not happening or where is the 30%. That is a very difficulty question to answer. Given the

answer we would really focus only on those molecules. But having said that, I think products where there is a technology play or there is some opportunity in terms of intellectual property with which you can fence your product, or products where relatively you have competition enough maybe two others or three others. Those would be the products which would hold pricing. Having said that, again, even niche products are being chased by almost all the players and they no longer remain niche products. Example is galantamine, which is a very difficult API to synthesize but we had 6 or 7 filers on day one. Non-US, we don't really expect this kind of price erosion except pure generic market like the UK. The UK is already a tough market. The prices are far lower in many cases than in the US, but the other markets are relatively more attractive and the markets where you have brands, retain pricing for a longer period of time. Market like India, Russia, though there are overall pricing pressure, the pricing is much more attractive. Injectable business appears to be less intense in terms of competition compared to the oral solid dosage market where there are multiple players, so it looks like that the injectable pricing will hold. Do you have a follow-up question?

David: Yes a couple of questions. The first is what do you think about industry capacity in 2006-2007. Do you think that will be an issue. Secondly, following the Teva-Ivax deal, part of the rationale is that scale is increasingly important, do you feel that given your scale or presence in the US that you are disadvantaged?

GV Prasad: In terms of capacity, I think capacity exists. I think all the major players have enough capacity built and are building capacity to meet the 2006 to 2009 surge in product patent expiries. In terms of the Teva-Ivax merger, I think the scale is important but I think it is less important for Teva than for us. I think companies like us need to get into the multiple hundred billion dollar level to sustain our operations and we see that happening over the next three to four years where our entire pipeline starts unfolding. I think for companies from India, scale is very-very important. Scale as well as vertical integration, both are important to achieve sustainable level of business.

David: Then two last questions. First a clarification, the example you used earlier of the product, I just didn't catch it on the audio.

GV Prasad: Galanthamine, this is a J&J product.

David: Okay, and then also when you look at the penetration of products and number of competitors per product, do you see that increasing or remaining relatively stable over the next several years and how much of your effort is being spent or focused on R&D for new products going off patent versus are you also working on back-filling or going after products where there may be one or two competitors already in the market where you currently manufacture the product in India or in Europe?

GV Prasad: If you see our generics R&D, about three-fourth of the effort is to go after products which would be day-one launches, and the balance effort is in finding products which have limited competition today because of technology or IP barriers. So that's roughly the split that we are following in terms of making our pipeline. I do think that while we put one-third of the effort on the technology related products, the number of

products will be significantly lower because that requires a greater deal of effort to overcome these challenges.

David: I promise the last question, would you support the elimination of the 180-day exclusivity or at least a reduction from 180 days to say 90 days or 45 days?

GV Prasad: No definitely not. We have a pipeline where we have 30 products where we are first to file and would like a greater period of exclusivity.

David: Fair enough, thank you very much.

Sameer Baisiwala: Good evening everyone. A couple of questions, first is, you mentioned about the fact that you are working may be one fourth of your filings for the regulated market, specifically the US, with drug delivery technology, what's the launch visibility, when do you see them getting commercialized?

GV Prasad: Two years from now. If you see the flow the products where we have modified delivery, two to three years from now.

Sameer: Two to three years, okay. The second thing is, as far as your specialty drug is concerned for which you are probably trying to take them to human trials by the end of this year, could you talk a bit on what kind of delivery system or what kind of technology platform do they belong to?

GV Prasad: Yes, we have basically three platforms that we acquired from Trigenesis, one is enhanced penetration from the cream, and another one is a non-irritating platform, and the third one is a delivery device. So we are using all these three platforms to develop products.

Sameer: And the two drugs, two assets which are the farthest ahead, which do they belong to?

GV Prasad: One is a device and another one is a cream, an ointment.

Sameer: With enhanced penetration?

GV Prasad: Yes, enhanced penetration.

Sameer: Okay. You probably are keeping two years and taking the launch some time in 2008, those two years would belong for the clinical trials as well as regulatory approvals?

GV Prasad: Yes.

Sameer: The other question is about your research spend, it seems that for the drug delivery related clinical trials, the spend has gone down versus the specialties has gone up. What really is the reason for the drug discovery to go down, is it lesser number of molecules or..?

GV Prasad: Essentially of timing. When the clinical development starts, that's when the bigger spend comes in, so it is a question of timing, nothing to do with the program speed.

Sameer: So, the same number of molecules continue.

GV Prasad: Yes.

Sameer: Okay. One last question is about, you talked about increasing filings from Germany, France, and Italy. How do you plan to launch in these markets, it's a partnership model or, and second is what's really the launch visibility?

GV Prasad: Well, right now we have only UK where we have direct marketing. The other markets we are working through partnerships, but we have an aspiration to enter these geographies either through a small acquisition or through a start up.

Sameer: Okay, so should we read that you would, I mean, it would be a hybrid model?

GV Prasad: Yes.

Sameer: Okay, and when do you see the approvals start coming through?

GV Prasad: As of now the products that we are filing are under the mutual recognition process, so they will be valid for all the markets as we file them.

Sameer: You mean to say that the drugs which are in UK, you get them over here through mutual recognition?

GV Prasad: Not all the 12. The prospective filings will be under the MR process.

Sameer: Okay, and the MR process would take 12 months or something?

GV Prasad: Yes.

Sameer: Okay, and it could be drugs such as omeprazole, amlodipine, etc.

GV Prasad: Yes.

Sameer: Okay, thank you very much.

Rakesh: This is Tarun Shah and Rakesh from Mehta Advisors. I had three questions, could you give breakup of SG&A expenses between legal and litigation cost and litigation maintenance expenses and marketing and administrative expenses. I understand the legal cost is clubbed with SG&A expenses.

Vasudevan: That's right. The legal costs are approximately \$3 million for the patent challenge cases. The rest are the regular SG&A expenses.

Rakesh: And does this \$3 million kind of more or less remain constant, has it remained constant over the last four quarters?

Vasudevan: Yes, that's right, for the last four quarters it has more or less remained at the same level.

Rakesh: My second question is with respect to \$200 million that you have in cash and, what acquisition targets would you look at or is this money kept for opportunistic acquisitions, and if so, broadly which areas are you targeting such acquisitions?

GV Prasad: We are looking at opportunities like I mentioned earlier, to expand geographically in the Europe, and we have evaluated a number of candidates. We are also looking at building critical mass to our US operations. So, these are the two areas, and we are also opportunistically looking for our other businesses, opportunities in Russia as well as India.

Rakesh: Okay, and Prasad, do you see any other API where the prices have almost bottomed out and some suppliers may get out of manufacturing, something what happened in omeprazole and Ciprofloxacin, do you see such other opportunity coming for APIs in your product market in the next two to three quarters?

GV Prasad: No, we don't see anything. I think Ciprofloxacin was a temporary phenomenon. Omeprazole, the supply remains good, but in the UK some formulators have exited.

Rakesh: Okay, and with respect to the partnership that you mentioned in the call and also it is provided in the annual report, when do we expect the announcement regarding the partnership for the NCE part, and will it only be with financial investor entity or it will also be financial entity as well as corporate entity?

GV Prasad: I can't disclose those details to you at this time, but we are in discussion with several players, and we will make an announcement shortly.

Madhusudhan: This question is more on the cash flows for the current year. Do you think you will have adequate flows to kind of fund whatever expenditure you have in mind?

Vasudevan: Yes, we do have. If you remember last year also Madhu we had a cash accretive situation of about \$32 million. This year also we were able to spend, I mean, whatever requirement for our infrastructure was, it was met from our own internal accruals. We are fairly confident we will be able to generate enough cash.

Madhusudhan: And this is excluding the \$20 odd million of ICICI which was there last year?

Vasudevan: Yes, that's right, it had already come in at the end of last year.

Rahul Sharma: Sir, do you see the competition intensifying in major markets such as France and Germany with more Indian players coming in and price erosion levels being as high as 95%?

GV Prasad: No, I think France and Germany are not markets where Indian players have entered in a strong way. I think in these markets, the pricing remains attractive.

Rakesh: I have a couple of questions here. First, I would like to know whether your domestic formulation sales would continue to sustain the growth that it has shown this quarter, and two is, how do you see your sales in the semi-regulated market of Russia and Europe shaping up over the next few quarters?

GV Prasad: To your first question, the domestic market, for the first quarter was helped by the VAT spillover benefit, so you should not see that as a trend, but I am pleased to say that we are performing strongly in the domestic market and we should show solid growth in this year. Russia also we see strong performance. Overall, the international performance in the semi-regulated market has been quite good.

Rakesh: Do you see the current rate sustaining over a year or it will be below than what we have seen this quarter?

GV Prasad: Current growth rates of a quarter have some exceptional sales embedded in them. In the domestic, the VAT, and in Russia, there has been advance purchasing by our wholesalers. So, you should not take that as a trend.

Nikhil Shah: Thank you Pratibha. We would like to thank all of you for joining us in the call today and for further clarifications, please feel free to get in touch with the IR desk either on phone or on email. Thank you.