

**DR. REDDY'S LABORATORIES**  
**FOURTH QUARTER AND FULL YEAR ENDED MARCH 31, 2004**  
**EARNINGS CONFERENCE CALL**  
**MAY 28, 2004**

Moderator: Good evening ladies and gentlemen, I am Pratibha, the moderator for this conference. Welcome to the Dr. Reddy's fourth quarter and full year fiscal 2004 Q&A conference call. For the duration of the presentation, all participants lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to the SingTel bridge first; after that a Q&A session for participants connected to CyberBazaar international bridge; and then the Q&A session for participants connected to CyberBazaar India. I would now like to hand over to Mr. Nikhil Shah of Dr. Reddy's Laboratories. Thank you and over to Mr. Shah.

Nikhil: Thank you Pratibha. 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 fourth quarter and fiscal year ending March 2004. By now, you should have seen the press release as well as the additional financial disclosures, which was sent out this evening. The results are also posted on our website, on the home page under the quick links icon. Today, we have on the call, G.V. Prasad, our Chief Executive Officer; Satish Reddy, the Chief Operating Officer of the company; and Vasudevan, our Chief Financial Officer. To ensure full disclosure, we are conducting a live web cast of this call, and a replay of the call will be available on our website soon after the conclusion of the call. Additionally, the transcript of this call will be available on our website at [www.drreddys.com](http://www.drreddys.com) under the quick links icon soon after the conclusion of the call. Please note that today's call is copyrighted material of Dr. Reddy's, and cannot be re-broadcast or attributed in presence of 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 statement as defined in the US Private Security 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 a strategy, the market acceptance of and demand for our products, our growth and expansion, technological change and exposure to market risks. By their nature, these expectations and projections are only estimates and could be materially different from actual results in the future. And, now to get started, let me turn the call over to G.V. Prasad, our Chief Executive Officer.

**GV Prasad, *Chief Executive Officer***

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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.

As you may have seen in the release, the net income for the fourth quarter is significantly lower at 4 million dollars in comparison with 14 million dollars in the fourth quarter of the previous year. This number includes the impact of certain one-time charges and provision of 8.5 million dollars that we recorded following exceptional events that occurred during this quarter. Vasudevan will discuss these charges in detail in his analysis. A substantial part of these charges relate to the amlodipine maleate or the AmVaz project and the Government of India price notification court case on norfloxacin. In addition to the above, the performance for the quarter was also impacted due to lower revenues from fluoxetine and tizanidine in the US as a result of increased competition.

Before I review the full year results, I would like to discuss key revenue highlights for the fourth quarter.

Revenues grew by 12% to 110 million dollars. This growth was driven by the API segment, which recorded a strong growth of 46%. Our international markets in API segment grew by 51% driven by ramipril in Europe. Revenues from the Indian API segment were up by a strong 31% on the back of strong volume growth in key products. The branded formulations business in India recorded a growth of 24%. This growth should be seen in light of the fact that our revenues for the fourth quarter of previous year were impacted by the value added tax issue.

Now, moving on to the full year results,

In fiscal 2004, we invested heavily in organization building and strengthening our pipeline. So, let's look at what we did in fiscal 2004 and review some of the business highlights.

Starting with the revenues,

Revenues grew by 11 percent to 463 million dollars. This increase was primarily driven by the performance of ramipril in Europe. For the full year, ramipril recorded revenues of 29 million dollars. Russia and India continued their growth adding to the overall revenues.

I would like to highlight the fact that our US generics portfolio sustained its performance for most part of the year and this despite not having any significant new product launches. The branded formulations business in India achieved a growth of 10% despite challenges of rationalizing our product portfolio and a low industry growth rate of 7.3%.

Let me now focus on our margins.

Our full year gross margins are at 247 million dollars or 53% of total revenues. As a percentage of revenues, these margins are down by about 4 percentage points primarily on account of the changes in our product-market portfolio.

Let's now look at the increases in our SG&A and R&D costs.

Our SG&A expenses increased by 29% to 151 million dollars. This increase was primarily driven by legal and consultancy charges by 8 million dollars and manpower costs by 8 million dollars. In addition, the exceptional charges that I already mentioned for the fourth quarter also contributed to the overall increase.

Let me share with you few details of our organization building efforts. As we drive innovation across our businesses and expand our presence in key geographies, we are investing in creating the right talent pool and leadership to take on this challenge. During the year, we strengthened our leadership team as we added Dr Dennis Langer to head our North American operations in addition to a number of key recruits. We strengthened our R&D teams with senior level recruits from global pharmaceutical companies and increased the depth of our Intellectual property management teams. We also integrated the product development effort across our core businesses to increase the focus on productivity and product delivery. In the US, we added new members to our team and also moved our offices to the pharma belt of Bridgewater in New Jersey. In Europe, we consolidated our business development and marketing operations in UK. These investments are critical as we continue to pursue significant growth opportunities in our key geographies and we have emphasized this several times in the past.

Coming back to R&D, our full year R&D investments of 46 million dollars were in line with our internal estimates of 10% of total revenues. Of this, we invested 17 million dollars in our drug discovery efforts. During the year, we commenced clinical development on 2 additional NCEs in line with our strategy of stepping up our investments in clinical development of our NCEs and in the process unlocking the value of our assets.

In terms of numbers, during the year, we filed 13 ANDAs and 16 drug master files with the US FDA. The regulatory submissions in the US could have been higher but for the fact that some of the work we did was dependent on a positive decision in AmVaz. In the drug discovery segment, DRF 1042 moved into Phase II trials and we commenced Phase I trials for two of our NCEs - DRF 1644 and DRF 10945 in Canada.

As a result of all the increased costs as well as the exceptional charges, the net income for the full year was at 57 million dollars or 12% of total revenues in comparison with 78 million dollars or 19% of total revenues in the previous year.

Before I hand the call over to Vasu for the financial review, I would like to discuss the overall strategy of the Company to achieve our vision of becoming a discovery-led global pharmaceutical Company.

We are aggressively driving growth in our core businesses of APIs, Generics and branded formulations. We are focused on maximizing the opportunities in the regulated markets by stepping up our regulatory filings in the near and medium term. At the same time, we will use our cash flows strategically for investing in clinical development. This will help unlock the value of our promising NCE assets and this is the second part of our strategy implementation. We will also aggressively pursue strategic alliances and partnerships to enhance the value of our assets across key businesses as well as help us mitigate the increased expenditure in pipeline development. We are faced with exciting as well as challenging times in the next couple of years as we continue the momentum in building our future.

To help you understand the execution of our strategy, let's take a look at the following facts.

When we look at the near-term and medium term, we are excited about what we have in our API and generics pipeline. **Today**, we believe that we have one of the most promising pipelines in the industry. We have 35 ANDAs, which include 24 Para IVs and 56 DMFs on file with the USFDA. In addition, we are working on over 50 new projects including APIs and generics. Of these, we target to file 15 to 20 ANDA filings and 20 DMFs in the US in fiscal 2005. While continuing our focus on patent challenges we have also started stepping up the activity on non-patent challenge projects and this will get reflected in our future filings. This will help in further expanding the breadth of our pipeline and adding predictability to our future launches. **AND**, while we continue to build our pipeline internally, we are also aggressively pursuing strategic partnerships and alliances to unlock the full value of our pipeline.

Some of our patent challenges are now maturing and could well turn out to be very significant opportunities over the next few years. Of course this is subject to favorable court decisions. More interestingly, many of these present an opportunity for Dr. Reddy's to participate both in the generics as well as the API segments. Some of these patent challenges have received lot of attention lately. Particularly, the generic equivalents of Eli Lilly's Zyprexa®, GSK's Zofran®, Novartis' Lamisil®, Sanofi's Plavix® and Pfizer's Zolofit® among others. The trial of Dr. Reddy's patent challenge for the generic version of Zyprexa concluded in February and we expect a decision later this year. The trial in the case of Zofran commenced earlier this week. The trial in the case of Plavix is expected to commence in early 2005.

The generics industry in Europe is also opening up driven by the fast paced generic reforms and this we believe will provide us very significant opportunities to leverage our existing product pipeline.

While we continue to power our growth initiatives in APIs and Generics, the growth opportunities in our branded formulations business are also equally exciting. We have established a strong base in India. As we enter into a product patent regime, we intend to leverage this base to drive growth through in licensing, co-promotion and new product launches in niche therapeutic areas. At the same time, we will continue to expand our global presence in key markets of Russia, Latin America, China and South Africa and this should drive our long-term growth.

In the Drug Discovery segment, fiscal 2005 will be a busy year for us with as many as 4 NCEs in various stages of clinical development globally. This, we believe is very significant for a Company of our size. As we make progress in advancing our pipeline into development, we are building strong capabilities in drug development. This will help in enhancing the value of our NCE assets. We will further complement our internal R&D efforts by pursuing strategic collaborations, licensing and alliances in the key focus areas.

Let me now give you an update on our development programs.

In the fourth quarter, we commenced our first ever clinical trial outside India, on our predominantly PPAR alpha compound - DRF 10945. In the phase I trial, we are evaluating the safety of this drug in 56 healthy male subjects in a single ascending dose study. This represents an important step forward in providing patients who suffer from dyslipidemia with an important treatment option.

The clinical trials on our topoisomerase I inhibitors DRF 1042 and DRF 1644 in the Oncology segment are progressing well in India. We also expect to commence the Phase I trial on our atherosclerosis compound RUS 3108 in North America shortly. RUS 3108 is being developed to treat atherosclerosis and thereby reduce the incidence of heart diseases, which is the leading cause of death in the developed world. We hope to demonstrate that by inducing a protein called perlecan, we can block inflammation, proliferation and thrombosis at the plaque site, which is a novel approach in treating atheroma.

We are also evaluating some interesting pre-clinical candidates in metabolic disorders and anti-infectives segment and I look forward to reporting on our progress as we move forward through the year.

Before I conclude, I would like to discuss our Specialty strategy following the acquisition of Trigenesis earlier this month.

With AmVaz or amlodipine maleate as an entry strategy, we were trying to build the presence in the primary care segment of cardiovascular therapy through a switch strategy from Norvasc®. But given the AmVaz court decision, this strategy is no longer valid. However, we are committed to building a specialty business in the US by focusing on segments with lower entry thresholds. This is important given the fact that the generic business is driven by fluctuations and variations as a result of the competitiveness in the market and the branded segment is likely to add predictability to our business. The dermatology segment is one such segment with an attractive profit margin, a small base of specialists and thereby requiring a smaller detailing force. AND also being below the radar screen of large pharmaceutical companies. The acquisition of Trigenesis provides us with an entry into the dermatology space and we are quite excited about this. We will combine this with the possibility of marketed products and organic pipeline will enable us to make our entry into the dermatology business.

So, what are our next steps?

Currently we are in the process of evaluating product opportunities based on the acquired drug delivery platforms, and as the year progresses we hope to take some of these opportunities forward into development. We intend to combine our internal capabilities in product development with possible acquisitions of marketed products and aggressive business development strategies to create a franchise of differentiated products that will establish us as the key player in the US prescription dermatology segment.

This concludes the portion of my presentation and now Vasu will discuss the financial results in detail.

**VS Vasudevan, Chief Financial Officer**

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

Prasad has touched upon the key aspects of the fourth quarter and full year's performance. What I would like to do is to take you through the fourth quarter numbers in greater detail, discuss the tax provision and key balance sheet items.

Revenues were up 12% to 110 million dollars during the quarter. The strong performance in our API and India formulations businesses was to some extent off set by the dip in our generics business. This dip was largely due to the increased competitive pressures in fluoxetine and tizanidine. Combined revenues from both these products were at 8 million dollars as against 13 million dollars in the third quarter.

Looking at the margins, the gross margins were at 52% of revenues down from 63% in the fourth quarter of the previous year. The change in the business mix during the quarter with lower contribution from the generics business impacted the gross margins. Also, of note, is the fact that we have sustained our gross margins at the third quarter level despite a change in business mix.

During the quarter, we recorded one-time exceptional charges of 8.5 million dollars. As Prasad mentioned, this includes a charge of 2.6 million dollars relating to the AmVaz Project, a provision of 4.2 million dollars relating to the Government of India price notification court case on norfloxacin, a charge of 1.3 million dollars relating to the divestment of Compact Electric Limited and a charge of 0.3 million dollars relating to impairment of assets

Our SG&A costs increased by 30% to 48 million dollars. This includes the impact of one-time exceptional charges, which I just discussed earlier.

Our R&D investments increased 32% to 15 million dollars or 14% of the total revenues. This increase was largely driven by the investments in the clinical trials of our NCEs.

Moving on to Other Income, net of other expenses, the income under this head decreased to 0.7 million dollars from 4 million dollars in the fourth quarter of last year primarily due to certain exceptional charges as mentioned earlier.

Let me now discuss the tax provision for the full year and the fourth quarter. Based on the fourth quarter results, divestment of Compact and increased R&D investments including the weighted deduction which we reworked for the full year, the full year tax figures work out to 3% of our pre-tax profits. And as we had already provided for a higher amount in the first nine months, we reversed \$10 million in tax provisions during the quarter.

Turning to the balance sheet, we ended the year with cash balance - cash and cash equivalent and investment in securities of 198 million dollars. We invested 58 million during the year in property, plants, and equipment. There was an improvement in the

working capital as reflected in this reduction of receivables in terms of days of sales outstanding from 72 days to 67 days, and on inventory marginally from 55 days to 54 days.

This concludes my presentation and now over to Prasad.

**GV Prasad, *Chief Executive Officer***

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Thank you Vasu. I would like to thank all of you participants and the financial community for support in building Dr. Reddy's into where it is today with a strong pipeline of generics as well as innovative products with a potential to create long term sustainable value.

As we go about this task, the challenge of managing profitable growth while investing in the businesses of the future remains our prime focus. The short-term setbacks may underscore the risks we face in our business but this in no way affects the strong fundamentals on which our businesses are built. A powerful pipeline, highly productive R&D engine, and global presence in all the key markets are the pillars on which we will build Dr. Reddy's.

We now keep the floor open for the interactive Q&A session and will be pleased to answer your questions.

## Q&A session

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Joel: Good morning, could you provide us with any earnings estimates for the next 12 months? Any guidance there at all?

Vasudevan: Vasudevan here, we normally do not provide guidance for the future period. It has not been our practice.

Joel: Okay, can you talk a little bit about what the legal strategy would be given what happened with the AmVaz litigation in the US? How it is going to affect your future, with that litigation here in US?

GV Prasad: The AmVaz litigation was based on specific application with respect to patent terms restoration provision. We argued that the extension in patent life given was to the one form of the salt, the marketed product and not the other salts. Obviously, this was not accepted by the circuit court. This decision has really no impact on our pipeline of other products because this particular argument is very specific to amlodipine maleate. So, in the sense that the other patent challenges that are in our portfolio are dependent on entirely different grounds.

Joel: Right, thank you.

GV Prasad: Thank you.

Christie: Our next question comes from the line of Sanjay Valvani of BAM.

Sanjay: Hello guys! Vasu, I am just wondering if you can let us know whether the fiscal fourth quarter run rate of SG&A at around 44% and R&D at 14% are reasonable assumptions to carry forward to fiscal 05?

Vasudevan: I think that those are the assumptions. As we mentioned earlier, the R&D expenses were somewhere at 10% for overall period, and this year you could see a slight increase in the R&D spend. And as far as SG&A also is concerned, there would be investments in human resources as well as building certain skill set, and also as we mentioned earlier we moved to our new premises in New Jersey, all this could, there could be a slight step up in the SG&A expenses also.

Sanjay: So, there could be a slight step up in SG&A greater than 44% what we saw in the fourth quarter?

Vasudevan: No, what you have to do is eliminate the exceptional items out of the SG&A and look at that base number and see if there is a spike in that or whether there has been is a decrease in that.

Sanjay: Very good. Thank you.

Moderator: We will now have the Q&A session for participants connected to CyberBazaar India. First in line we have Mr. Nikunj from Kotak Securities.

Nikunj: Yeah, good evening everyone. Can you give us some more visibility in terms of what are the products that could be launched, means bulk drug and finished formulations or generic during FY05 in Europe and US? Is it possible for you to give any guidance on that?

Vasudevan: We have already launched amlodipine maleate in Europe. Then we are looking forward to launch fluconazole and ciprofloxacin in the US. Those are the main products. Of course we have to look at the outcome of olanzapine case, which way it goes, that could be a possibility if it goes in our favor. These are the next products which we are looking forward to.

Nikunj: Okay, and just another question regarding Balaglitazone, what is the status of that, I mean, has it progressed to phase III or is it likely to progress in near term?

GV Prasad: It is undergoing certain tests and it is slated to go into phase III shortly.

Nikunj: Okay, thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Rahul Sharma from Karvy Stock broking.

Rahul Sharma: Sir, I just wanted, as lot of these cases are going to come up for hearing in the lower courts and I just wanted to know what type of legal expenses have we budgeted for the current year and could you throw some light on that?

GV Prasad: In the last year we spent about \$12 million. This is to increase further as the number of cases add to the portfolio. This could go up further in the current year.

Vasudevan: What we will be looking at is the various cases and the various stages they are. At this moment it may be difficult but definitely there is going to be a step up, as you are aware the number of projects are on increase. The litigation projects are on increase.

GV Prasad: The increase should be not more than \$5 million at most.

Rahul Sharma: Sir, any update on the generic Accutane launch, and what development in the US market sir?

GV Prasad: We have an approval for only one strength of Accutane.

Rahul Sharma: Sure, but are we expecting it in the first half or any indication?

Prasad: It should happen towards the end fiscal 2005.

Rahul Sharma: And, sir any new products which you all are planning to launch in the European markets, and any acquisition in German or any of the other European markets on the anvil?

GV Prasad: We will launch a few products during the current year in UK. We are sort of going slow on the acquisition front in Europe and we are converting our attention to US and we will build up our presence in the US first before we expand into the continent.

Rahul Sharma: Thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Ajay Sharma from CLSA.

Ajay Sharma: Some bookkeeping questions for Vasu. Could you just give what kind of gross margins we can expect for next year, it is at 52% right now, and the tax rate for next year?

Vasudevan: On the tax rate, because of the step up in the R&D expenses, we are looking forward to tax rate, which would be less than 10%

Ajay Sharma: And gross margin, do you expect to be at 52 or it could trend higher from here?

GV Prasad: Gross margin possibly would be at the Q4 level, but it also depends on the new product launches. As we launch new products, you could see it slightly being stepped up, but 52% is the indicator.

Ajay Sharma: And R&D, should we take around 11%, is that fine?

GV Prasad: It depends on the outcome of certain clinical trials, but that could be a good estimate at this step.

Ajay Sharma: And can I just squeeze in one more short question?

GV Prasad: Yes please.

Ajay Sharma: given the challenges you are facing now after the amlodipine thing, as a CEO what are key priorities for you from hereon over the next two to three years.

GV Prasad: One is to overall manage short-term profitability while continuing to build the pipeline, reduction in the overall operating cost through alliancing. And third is to really build the specialty business which will be an insulation against the fluctuating nature of the generics business. These are my key priorities.

Ajay Sharma: Thanks.

Moderator: Thank you very much sir. Next in line, we have Mr. Ashwin Agarwal from Akaash Ganga.

Ashwin Agarwal: Hi everyone. My question is for Mr. Prasad. Mr. Prasad by when did you feel you will have a critical size of generic market in the US, I know it will depend upon your para IV challenges, but what is the broad roadmap because of your very high focus on para IVs, wherein there is a lot of uncertainty, by when you will be able to have a critical size in US, at least in the generics?

GV Prasad: I will answer the question with a couple of caveats. If we win patent challenge this year, it could be as early as next year, and if we assume that we lose all patent challenges, which is an unlikely scenario, 2006-2007 would see us having the critical size, so it depends on the outcome and again the range of possibility. It could be as early as next fiscal year, not the current fiscal year but the next fiscal year, or it could be 2006-2007.

Ashwin Agarwal: And what would be the critical size?

Prasad: Anywhere from \$200 to \$300 million.

Ashwin Agarwal: I have a follow up question. In the NDA front you said because of the negative verdict on amlo few of the projects had to be shelved, which I believe few of the NDAs which you were to file you would probably not file now. Do you had any other NDA other than Allegra presently filed?

Prasad: Yes, we have one.

Ashwin Agarwal: What is that?

Prasad: We are not disclosing that as of now.

Ashwin Agarwal: Okay, and it is not related to amlo?

Prasad: No, it has nothing to do with amlo.

Ashwin Agarwal: Okay. So, basically you have two pending NDAs.

Prasad: Right.

Ashwin Agarwal: Okay. And what are the targeted number of NDA filings for this year you have not given?

Prasad: Are you are talking of NDAs.

Ashwin Agarwal: Yeah. 505 (b)(2)s.

Prasad: Yeah. We do not have a number on that now, but we are working on specialty products as a result of the Trigenesis acquisition. I cannot predict whether they will be filed in this year.

Ashwin Agarwal: Okay. So, do you feel the first NDA launch could be around 2007-2008, somewhere?

Prasad: Yeah.

Ashwin Agarwal: Okay. Lastly, in the fourth quarter you have filed four DMFs, and I understand on all the four, those were the first DMFs ever filed?

Nikhil: Ashwin, this is Nikhil. During the fourth quarter, we filed six DMFs.

Ashwin Agarwal: Okay. I think few in the database reflect as of December. They may be have carried forward to the Q4. So, out of those six, I think in four of them, they were the first time DMFs, so what is the strategy on that front, whether we could see para IV challenges also on those, like seroquel and pantoprazole, and repaglinide?

GV Prasad: I think, see, in all our DMFs we have at least two of the top ten generic customers, and they could well be para IV challenges on most of the products that we have filed so far.

Ashwin Agarwal: Okay. Thanks a lot.

Moderator: Thank you very much sir. Next in line, we have Ms. Shaheena from HDFC Securities.

Shaheena: Sir, I have this question for Mr. Prasad. What would be your marketing strategy for generic fluconazole, I believe would be launched somewhere in the middle of this year, post July, and secondly ramipril, which has done very well in the last year, that is around 25 million USD, how do you see this product panning out for you during this year, and also is it just Europe or is it US also?

GV Prasad: Fluconazole will be launched through our own distribution and our own sales force. As far as ramipril is concerned, as you always know, the first year is the peak year of sales. In the second year, some sales will come off somewhat because of the over stocking that normally happens with all generic companies, each of them moving to take a large market share. So the second year usually will be a decline in sales sometimes... It is only for Europe. As of now, all material that we sold is for Europe.

Shaheena: Would you expect fluconazole revenues to compensate for any decline and whatever decline in ramipril and still give a growth?

GV Prasad: It is hard to predict because the generic market is difficult to understand what market share could be actually launched, but both ciprofloxacin and fluconazole are going to be pretty competitive.

Shaheena: Thank you.

Moderator: Thank you very much madam. Next in line, we have Mr. Samir Narayan from Enam Securities.

Samir Narayan: Good evening team. This question is to Mr. Prasad. Mr. Prasad in response to an earlier query you mentioned that the critical mass you would be looking at is about \$200-300 million, which would be by 2007 in case we do not win any of the patent challenges.

GV Prasad: Right.

Samir Narayan: So right now we stand at about 100 million USD in generics, so do you see a pipeline by which we could probably triple our sales over the next three years without any patent challenges?

GV Prasad: Yes, because some of the patents will expire in three years, even those, which we have challenged will expire. We see significant launches during that period.

Samir Narayan: Sir, could you give us some outlook on how the amlodipine launch in UK is doing for you and how do you see it going forward.

GV Prasad: It is a very competitive situation.

Samir Narayan: Okay.

Prasad: Several players are coming to the market and prices have gone down.

Samir Narayan: Sir, today how many players would be currently competing.

Nikhil: Samir this is Nikhil. In the UK, there would be about four to five players right now, so that is status as far as UK is concerned.

Samir Narayan: Okay. Right sir. Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Rajesh Vohra from ICICI Securities.

Rajesh Vohra: Good evening Mr. Prasad, I have a question for you. You have filed four ANDAs in the quarter that has gone by and all of them have been non para IVs or non patent challenges and also during your speech you mentioned that going forward that will also be an area of focus, does it mean that from your earlier strategy of predominantly

focusing on patent challenge products and managing the risk, you are trying to shift more towards non patent challenge products. Can you throw some light on this?

GV Prasad: I am not going to be able to give you the names of the products we filed, but there will still be a predominantly large number of para IV challenges in our portfolio. We will tend to be in the first wave of launches. Whether they are patent challenges or non-patent challenges, we will aim to be in the first wave of launches for every product that we make within Dr. Reddy's. So, it just happened that all the products that we filed in the first quarter happened to be non-patent challenges, but we are also looking at certain niche areas which have technology barriers and not necessarily legal barriers, and we will be filing ANDAs in those areas also where the barrier is technology rather than litigation.

Rajesh Vohra: Okay. Do you think if you would have started doing this couple of years back, the risk profile would have been completely different, would that have made sense?

GV Prasad: I will not completely agree with that because as you know it is only one or two products which make a huge impact on the top line and bottom line of generic companies, even though they have very large pipelines, it is a small percentage of the product, which gives a large portion of the profits, if you analyze the pipelines of various companies. If we just did incremental products, we would still probably end up with the same revenue, but with a lot less profitability, so I do not think fundamentally our strategy is wrong. It is just that, you know, mismatch in terms of ramping up our R&D and product development expenses without a corresponding top line on the business side to absorb these costs.

Rajesh Vohra: Thanks a lot and all the best.

Prasad: Thank you.

Abhay: Good evening sir. I was just wondering on numbers. With next year even ramipril going off and with most of the costs expected to go up, is it going to be a very very difficult year if none of the para IVs go through?

GV Prasad: If none of the para IVs go through and we do not do anything to mitigate cost in terms of alliances and things like that, it could be a difficult year.

Abhay: Sir, on the European front, like amlodipine, any sort of guidances you can give as to what sort of revenues we can get from amlodipine.

GV Prasad: We cannot give you any guidance, but amlodipine is a very competitive market place today in UK.

Abhay: Okay. And just as we got ramipril last year, is there is a possibility of some any other product coming in Europe, which can also throw out good revenues for the current fiscal.

GV Prasad: On European front, I think we do not see any visibility of the major launch.

Abhay: Okay. Sir, one last question. Regarding all these provisions, I mean, typically if I look at it like, we have always been saying that R&D cost are all written off, then why is that you have a charge of 11 crores for AmVaz and, you know, after you lost the verdict, and again Compact Electric was sold two years back, so any reason why the extraordinary hit has come in this particular quarter?

Vasudevan: Abhay, as far as R&D expenses are concerned, they are charged off as they are spent. So whatever you have seen on Amvas, it is not only R&D, it was also related to some service agreements, commitments which were there and which relate to the specific quarter. And as far as Compact is concerned, it has been sold only in the previous quarter, that is the last quarter of the previous year - it was not done earlier.

Abhay: Okay. And sir on this norfloxacin also, are there any expectations of more provisions or this is the, I mean, you know, as of now there would not be any further write off on norfloxacin or cipro, any of the other products.

GV Prasad: This is as per the latest estimate whatever we have calculated we have provided fully.

Sameer: Hi. Good evening everyone. Could you please elaborate on your income tax benefits for the current quarter, you mentioned R&D and Compact divestment, but I mean, how exactly do you break it up and some more details on this.

Vasudevan: Sameer, good evening, Vasu here. I mean whatever the Compact Electric divestment charges, there is difference between the capital cost and whatever we recouped on the investment, the tax charge has been reduced to that much expense, and as far as R&D is concerned and some of the expenses in EOU unit, we were able to claim as R&D spend, and get claim of weighted deduction on that, because there is an increase in the R&D spend in the fourth quarter, we were able to claim up weighted deduction on that.

Sameer: Okay and on your capex that, about 150 crores that you have done during the current year, how much of fixed assets, how much of this has gone into manufacturing assets and what is the outlook for the next year?

Vasudevan: Most of them have been into manufacturing facilities and even next year you can look at a similar number.

Sameer: Okay, and just one last question from my side to Mr. Prasad. What is your outlook for the overall sales for the next year?

GV Prasad: We do not give you guidance for the sales, right. It has never been a practice for us to give you guidance on sales or margins.

Sameer: No, I am not looking for a number, I am just saying overall outlook.

GV Prasad: When you say overall outlook what do you mean?

Sameer: I mean do you see the growth or do you see there to be degrowth or.

Prasad: I mean, if there is no patent challenge success, the growth will be modest.

Sameer: Okay, thank you very much.

Vishalakshi: Good evening sir. My question is on, you know, what you indicated on pursuing strategic partnership to drive future growth, can you let us know what one should expect over the next 15-18 months in this front, and the second question is on your capex plans for the next 12 months?

GV Prasad: When we say strategic partnerships, we are looking at multiple objectives. One is to increase the penetration in terms of market share and market access, which could be other countries in Europe as well as market penetration in the US. The second thing is to you know share somehow the developmental costs and the legal costs that we are incurring by trading off long term revenue with short term expenses and other such options which would help us absorb the increased R&D and product development cost.

Vishalakshi: In terms of you know any potential number of deals etc. would you like to give us some visibility on that front?

GV Prasad: No, I think it is our intention to do such deals today. We still are to work and find the right appropriate partners for us.

Vishalakshi: Okay, and your capex plans for fiscal 05?

GV Prasad: Fiscal 05 we are investing in formulation development and as Vasudevan mentioned it will be similar to this year.

Vishalakshi: Okay, thank you.

Sanjay Chawla: Good evening sir. My question is relating to the 35 pending ANDAs, could you tell us out of these 35 how many are para IVs and how many of them are non-para IVs and which are more than nine months old?

Nikhil: If you look at the total pending applications we have about 35. Of this 35, 24 are patent challenges, and the balance 11 are non-patent challenges. Of these 11, 4 ANDAs that we filed in the fourth quarter, so the balance 7 would be more than a year old.

Sanjay Chawla: Okay, thank you.

Nimish Mehta: Good evening sir. Can you share your plans for statins in Europe and US.

GV Prasad: We have launched simvastatin in the UK market and we have plans to launch pravastatin.

Nimish Mehta: Okay, and what about your US plans.

GV Prasad: US we have not filed any statin as of now.

Nimish Mehta: And are you planning to launch, I mean, file?

GV Prasad: We cannot tell you such information before we file.

Nimish Mehta: Okay, can you give me your current sales of statins in Europe?

Nikhil: Nimish, this is Nikhil, I have the details with me but it is not right now available, I will send it across to you, I will mail it across to you.

Nimish Mehta: Okay fine, thank you.

Bhavin Chadda: Good evening sir. Your capex plan is Rs 150 crores for next year. Will all of this be in the domestic market?

Vasudevan our facilities are in India only Bhavin.

Bhavin Chadda: Okay. Sir can you give some outlook how the domestic market is shaping up and what is the plans of Dr. Reddy's for next year, some significant product launches at least in domestic market next year?

Satish Reddy: I think there is some confusion. I think you asked the question as to whether all the capex would be for domestic market? What Vasu was saying is that the facility for which this capex is going to be spent is going to be based in India. The markets will be all over the world, in terms of facilities that we are investing in because some of it is for domestic formulations, there is some which is going to go to the export markets may be the US and Europe also.

Bhavin Chadda: Okay thank you sir.

Sameer: Prasad you mentioned about the progress that is happening on our new drug discovery program. Sir, in your internal estimate when do you think would we reach a stage where this could be a possible revenue stream for us?

GV Prasad: The strategy of the company is to take the molecule at least through proof of concept in man, which is Phase IIa. This should take about 18 to 24 months, and after that it would be a candidate for licensing out.

Sameer: Okay, right sir, thank you.

Rahul Sharma: Sir just wanted to know any new launches in API exports expected in Europe or in US in the current year?

GV Prasad: There are no major European launches of API, but US could see one or two launches.

Rahul Sharma: And will we maintain the momentum that has been built in last year sir.

Prasad: We have the broadest pipeline today compared to any company in the world and every DMF we are filing, we have at least two to three of the top 10 companies in addition to the Dr. Reddy's as a customer. So we are quite bullish on our API business.

Rahul Sharma: Thank you sir.

Cobe: Hello good evening, I am sorry I am late. Thank you for the presentation. My question is just on olanzapine, if there is any indication of the timing for that launch and also just looking at the international formulations business quarter on quarter revenues are declining that particularly in Russia, and perhaps if you could just give an outlook for that and the international formulations markets, and overall what kind of revenue growth you are targeting for next year?

GV Prasad: Olanzapine as you know the case was heard and the hearings were completed in February, we do not have a firm base from anybody but estimates of lawyers are that we could have a decision by the end of Q2, you can just sum up August-September.

Satish Reddy: I think the specific quarter you were asking was about Russia I think on the formulations front. What happened was there was a spill over of some sales on the Q3 part from the Q2, you know, that is why there is some distortion there. What I would suggest is to look at it on the overall year you know so if you see if you see overall year it has been about 7% growth in Russia.

Cobe: Okay and just on the, I saw in the reports you were saying that you are proposing a dividend of 100% of net profit, is that correct?

GV Prasad: No, no, 100% is on the par value of the stock.

Cobe: Okay, and sir the last question, the capex for next year?

Vasduevan: We are looking at about 35 million dollars.

Cobe: 35 million, okay thank you very much indeed.

Shaheena: Hi, this is regarding some newspaper article that said that you had a recent approval for your FDA facility for the API, some API products, could you elaborate?

Nikhil: Shaheena, I guess what you are referring to is the tentative approval that we received on fluconazole.

Shaheena: And some API was approved, FDA approval came through for some facility?

Nikhil: There is no such you know development Shaheena, but I guess three or four days back the news was essentially on the tentative approval that we received on fluconazole in the US.

Shaheena: Okay, okay thanks.

Moderator: Thank you very much mam. Next is a followup from Mr. Sameer Baisiwala of JM Morgan Stanley.

Sameer: This is just to confirm, you mentioned that for **Balaglitazone** it is slated to go into phase III very shortly with Novo Nordisk?

GV Prasad: The product is undergoing certain testing as required by the US FDA, in primates and other such animals, and subject to that outcome it will go into phase III over the next few months.

Sameer: Next few months, okay, and just one last question is on domestic formulations, if I am not wrong, I think it was about good growth during the quarter as gone by versus what the, I think it was 24% versus about ORG is being saying I think negative or maybe just flat growth, is there any inventory issue or how do you seen a disconnect?

GV Prasad: Yeah, this was in comparison with previous year same quarter, we had a VAT issue in the previous year in the same quarter, and that is why the number was low in the previous year, so this year's number looks very good compared to that number, so you have to see that in that light.

Sameer: No but ORG will not comparing against the same low base?

GV Prasad: ORG captures sales at the retail level and not at the company level.

Sameer: Okay fine, thank you very much.

Ashwin Agarwal: Yeah thanks for the followup. Mr. Prasad you said, you would be filing 15-18 ANDAs, and in the last two years you have filed around 13-14 ANDAs. Now you are saying that you have the largest pipeline for DMFs, and on the other side we see **Ivax** Watson saying the highest visibility for ANDA filings, **Ivax** has gone on record to say 50, what is stopping us since we have such a large product basket of DMFs, plus you are saying 20 more DMFs this year, what is stopping us from filing 20-25 ANDAs?

GV Prasad: You know, last year we said we will file about 18, but unfortunately the pipeline was cut chopped because of the fact that it depended on the **AmVaz** interpretation of the patent term extension. So, that is why it is less than what we would have filed. This year we are talking about 15-20 ANDAs, the actual limit to filing a large number of ANDAs are two fold. One is, the actual work that needs to be done for a new product in terms of legal diligence as well as development and the cost of doing the bio studies. So that itself is certain limitation. And actual, physically doing this work, I do not think **Andrx** or **Ivax** or anybody is close to what we have filed. Even, you know, they talk about that but most of them are from partnerships outside their company. So, it is I think for a company of our size we have a very robust engine for developing ANDAs.

Ashwin Agarwal: Okay. Cipro would be launched on 10th of June, correct?

GV Prasad: Yeah.

Ashwin Agarwal: And both Cipro and fluconazole are flowing through the Par arrangement?

Prasad: No, they are being marketed directly by Dr. Reddy's.

Ashwin Agarwal: Okay, okay, thanks a lot.

GV Prasad: Thank you.

Moderator: We have a follow up from Mr. Abhay of HSBC.

Abhay: This is a short question to Mr. Vasudevan, any specific reason why the other income has also gone down significantly despite the increase in cash reserves?

Vasudevan: As we discussed Abhay, some of the exceptional items like...

Abhay: No, no, even if we adjust for that, I mean, after adjusting for that also as compared to the earlier quarters of Rs16-17 crores it has come down to 10 crores.

Vasudevan: That is what I am saying Abhay, the Compact divestment, that is the charge on the other income, so naturally other income will get reduced because of that.

Nikhil: We would like to thank you for joining us on the call today and for further clarifications please feel free to get in touch with the IR desk either on phone or on E-mail, and we apologize for the poor audio quality that some of you have faced on the call today. Thank you.