Dr. Reddy's Laboratories Ltd.

First **Quarter Fiscal 200**9

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Nikhil Shah: Thank you Rochelle. Good morning and good evening everyone and welcome to Dr. Reddy's earnings conference call for the 1st Quarter of financial year 2008/2009. We hope you have all had a chance to review our press release, which was issued earlier this afternoon. The results are also posted on our website on the homepage under the Quick Links icon. 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 be made available on our website at www.drredddys.com under the Quick Links Icon.

Please note that all discussions and comparisons during the call will be based on US GAAP numbers and the IR Desk will be available to answer any query relating to the Indian GAAP immediately after the conclusion of the call. To discuss the results and the outlook we have on the call today GV Prasad our Chief Executive Officer, Satish Reddy, the Chief Operating Officer of the company and Saumen Charkraborty our Chief Financial Officer. Please note that today's call is copyrighted material of Dr. Reddy's and cannot be rebroadcast or attributed in press or media outlets without the company's expressed written consent. Before we proceed with the call I would like to remind everyone that the safe harbor language contained in today's press release also pertains to this conference call and the webcast. I would now like to turn the call over to GV Prasad our Chief Executive Officer.

GV Prasad, Chief Executive Officer

Thank you, Nikhil. We thank all participants for joining us on the call today.

Before we discuss the Q1 numbers, we would like to highlight two important decisions having impact on our financial reporting:

1. First, moving to IFRS from USGAAP. We informed you about this decision during the last call and we now started this transition exercise. While we are still reporting this quarter number in USGAAP, we will move to IFRS reporting completely from Q2FY09 onwards. We will also be restating Q1 numbers as per IFRS standards.
2. Secondly, reorganization and consequent change in business segment reporting. If you recall, in the previous call, we talked about our businesses being grouped into 3 distinct segments – Global Generics, Pharmaceutical Services & Active Ingredients (PSAI) and Innovative Products. We now completed this reorganization and henceforth our business segment reporting would reflect this change.

We would like to explain the rationale for reorganization once again:

a) First our scale of operations has expanded significantly over the last few years leading to increased complexity in managing operations and accounting. Making this simple has become a top priority for us now.
b) In terms of operations, we have to create global focus & scale and move away from local optimization. Over the last few years, we have integrated the various teams focusing on development of finished dosages globally under the Integrated Product Development Organisation (IPDO). We also combined all finished dosage manufacturing operations into Formulations TechOps (FTO). Both these organizations cater to the entire global generic business. Similarly our Chemical Techops including Mexico (CTO) cater to both API and CPS customers. Our previous business segment focus has been leading to conflicting priorities and hence the reorganization will remove this bottleneck.
c) In terms of markets also, our previous business segments have become less relevant in view of changing market structure where different markets across the globe represent a combination of branded generics, INN and hybrid models. Global Generics industry is moving to harmonization of regulatory and Intellectual Property procedures and our reorganization would help in preparing ourselves to better respond to this changing trend.

Now, moving on to Q1 performance, I am pleased to report that we are off to a good start to the year.

- Revenues have grown by 25% in rupee terms.
- EBIDTA is at $63 mn, PBT is $37 mn and PAT is at $31 million.
- The EPS for the 1st quarter is at Rs 8.
- Global Generics grew by 25% to $241 million.
- PSAI grew by 27% to $107 million. This was led by strong product mix across key markets and growth in the services business.
- Globally, we launched 26 new generic products and filed for 20 new products
- The integration of the 2 acquisitions we announced in April is progressing well and the results are in line with our expectations
- Let me now cover the key revenue highlights in each of our strategic markets
  - In North America, revenues grew by 62% in rupee terms. We benefited from the new product launches over the last 12 months and volume growth in some of our key existing products. There was some pricing pressure in couple of products but this is likely to be more than offset by the new launches in the coming quarters. Shreveport added $7 million to revenues over two months.
  - In Germany, revenues grew by 20% led by volume growth. Stock-outs are down now significantly from 20% to 12% in May. This has helped us go after higher market share. As of date, we have transferred 100 products out of Salutas including 14 products to India. Our dependence on Salutas is now down to under 5% of our total revenues.
  - In Russia, we continue to beat the market growth rate. In the 1st quarter, we grew by 21% carrying over the momentum from last year. The overall market grew by 17.5%.
  - In India, we grew by 9%. Some of the key brands witnessed a decline and we expect growth rate to improve in the coming quarters.
- Overall profit margin is at 50%. The margin break-up is as follows:
  - Global generics segment at 58% as against 59% in the same period in previous year.
  - PSAI segment at 34% up from 31% in the same period last year.
- R&D spend is in line with our guidance of 7% of revenues.
- SG&A expenses for the quarter are at Rs 470 crores. We had an average quarterly run-rate of Rs 380 crores in FY08. This represents a growth of 25% in SG&A expenses for quarter.
- Amortization expenses were at $9 million.

- We recorded a tax expense of $8 million for the quarter. The effective tax rate in the 1st quarter is at 17%.
- Cash position as of June 30th is at $162 million including short-term investments.
- Overall debt-equity ratio has improved to 0.38 as of June 30th as compared to 0.41 as at March 31st.

We would like to provide an important update from our Board meeting today. Board has approved the purchase of rights of the financial investors in Perlecan Pharma for a total consideration of $18 million. Their original investment in Perlecan was $22.5 million. In the books of Perlecan, we carry a cash of about $9.5 million and some tax losses. We are evaluating how to utilize the tax losses. Considering this, we do not expect any significant adverse impact in our P&L.

Now, before we conclude, the outlook for the rest of FY09

- Our revenue guidance of 25% growth in rupee term remains unchanged.
- We are hopeful to sustain 50%+ Gross Margin and improved profitability overall.
- We look forward to the launch of several new products across key markets in the coming quarters including the launch of sumatriptan AG in the 3rd quarter.
- We are on track to launch our specialty business in US in FY09.

With this, we come to the end of our presentation. We thank you all for your time and attention and we would be glad to take your questions now.

Q&A Session

Sonal: The question to begin with on betapharm, we have seen the sales going up, I mean that is primarily due to the Euro appreciation. So I just wanted to ask you at this point in terms of broadly what is your view on the German generic market and in that context how do you see Betapharm's growth and profitability.

GV Prasad: The growth is not just because of the Euro appreciation it is also due to volume growth. There has been some pricing pressure because of this new reference price listed there. We hope to increase our volume growth and maintain this as we go forward. So while there will be pressure on pricing I think the turnaround will happen because of volume growth in the market.

Sonal: Right and sorry so do you reiterate your, in sort of profitability coming back to FY'07 levels or do you think that maybe difficult to achieve on this point in time.

Saumen: EBITDA what we have said earlier we are hopeful that we will get back to FY'07 level of EBITDA.

Ranjit: Good evening sir and just wanted update on the domestic market and the market is growing at 14% we have grown at 9%. So which are the products, which have brought down the growth rates if you can highlight?

Satish Reddy: Yes, some of the reasons why we did not perform as well as the market expectations growth that still to continue to be our goal for the rest of the year is the following: One is the new products that we plan to launch although we could launch a number of products there was a delay in terms of those launches in the quarter. So the full benefit will be seen starting this quarter onwards that is one reason. Second reason is some of the older products you know because which have been around in the market for quite sometimes, some of our lead products have not faired as well as we expected them to be because these products come under a particular marketing division in which there was a little bit of restructuring that went on, but outside of these we still are confident that we should be able to beat the market growth rate in the coming quarters and still meet the growth rate that we planned in the beginning of the year.

Ranjit: Sir what was the growth rate of Nise during the quarter.

Satish Reddy: Nise as a molecule itself is de-growing, right so it probably would have taken about say something close to 5%.

Ranjit: De-growing at about 5%.

Satish Reddy: For the first quarter.

Nimish: Yeah thank you for taking my question sir. The first question is related to the SG&A expense, I am sorry I missed earlier when you mentioned about it. I would like to get some more color on the expense, which has actually shot up for the quarter. And second question is related to the foreign exchange policy how are you covered and do you have any mark to market losses on the same.

Saumen: Yeah your first question about SG&A; our average quarterly run rate during the last year was 380 Crores and if you take that as a base, our SG&A expense has gone up by 24% but it is not a like to like comparison because we have now got both Shreveport facility and the Dow facilities in UK. So you know these two have added now to the cost structure while we are also getting revenue out of them. In terms of if you look at from the quarter 4 the increase from Quarter 4 of FY2008 to the Q1'09 is just slightly higher than 10%. Now of course leveraging SG&A to improve profitability is one of our priorities and we will be continuing to focus on that. And there have been some increase both in manpower as well as on the legal cost. And these are something we should have to see how this could be controlled. Coming to the FOREX currency so far as hedging positions are concerned we always have the policy of first hedging the receivables that we do you know as and when there are invoicing their and we will have to receive about $120 million that are receivables that we have got that is completely hedged and that is hedged closure to current you know dollar-rupee rate almost like a Rs.43.00 a dollar, but we also decided to hedge a percentage of our future sales for the next 12 months. And there we have almost $250 million worth of hedge in exposure and that has been taken at a different time starting from 40.50 to 42. So this is our total FOREX position today and we do that hedge accounting. So there will be some balance sheet mark-to-market loss so this should be unrealized. So unrealized mark-to-market loss on FOREX contracts is almost about 70 Crores but unrealized gain on advances subsidiaries is around 37 Crores. So net unrealized MTM loss will be around 33 Crores, but in terms of the overall if you have seen in the quarter report we have got a FOREX gain close to 15. I hope that was a response to both your questions.

Nimish: Yeah on the SG&A part you said legal cost and manpower has been higher so and also that it is you know about 10% over sequential quarters. So do we expect the same going forward in the run rate or how should we take it.

Saumen: I think we can reasonably expect with some you know variation to that, this could be the run rate.

Nimish: This could be the run rate, sir.

Saumen: But there could be always exceptions to SG&A in a specific quarter and we will have to come back with those exceptions but if we expect in a normal course this could be the run rate.

Nimish: One more question I would like to ask it is about the amortization. This amortization does not include any goodwill amortization for Betapharm …

Saumen: Yeah there is normal there is nothing abnormal, it includes the normal amortization.

Nimish: And what do you expect the amortization to be for the year in general …

Saumen: So it will be at this run rate.

Nimish: It will be at this run rate, sir.

Saumen: Yeah I want to just qualify my previous statement because when we talk about SG&A part of SG&A is like freight and freight is definitely the percentage of our sales. If our sales grow to that extent you know this part has a less growth.

Neelkanth: Hi thanks. Questions on Germany again, the Betapharm market share seems to have dropped from March 2008 to May 2008, I understand that March 2008 was seen as recovery from low levels perhaps it was slightly overstated, but where do we think we will end in the year with, I mean what kind of market share, because your peers like Stada and Sandoz even Ratio Pharm are seeing very strong recovery in their market shares. Where do we think we will end the year in terms of market share?

GV Prasad: There has been a significant growth in the market share compared to last year. I think taking March as a benchmark maybe you know not very accurate because of the fluctuations month to month quarter before that, but we are seeing very strong volume growth. The total volume growth during this quarter was 33%. And hence we do see a significant improvement in the market shares. We do have some you know challenges in terms of managing the supply chain with the new realities, supplying from India and attendant issues but overall these should be ironed out in a quarter or two and we should comeback strongly to the market.

Neelkanth: Thanks so much, just a quick follow up on that, in terms of your strength of portfolio now I see no reason why in this environment where in the portfolio the size of the portfolio is a referentiator and you already have fairly decently sized sales force. You should be looking to maybe double if not triple your market shares. I am just wondering if the size of your product portfolio is it comparable to that of the three larger peers.

GV Prasad: It is comparable in breadth but it is smaller than the top 3. We are not present in certain segments, but we are looking at our allied segments like hospitals, oncology and we would be entering them as an when we complete our plan.

Reena: Mr. Prasad I had a question on the overall landscape for Indian pharma companies following the Ranbaxy deal there has been a lot of speculation that other pharma companies might be next in line. So I wanted to get a view from you on what you see the landscape as being for Indian pharma companies as targets.

GV Prasad: I do not if I can say that we see a pattern here. I think the Ranbaxy case is a unique case, it was India's largest pharmaceutical company and hence you know it created all this interest in India, but what we see is a very strong renewed interest in emerging markets. From several players across the world, lots of the international large pharma companies are looking at growth from emerging markets. And you know companies such as GSK have publicly stated this. And there is a strong renewed focus on India, China, Russia and other emerging markets because these are the markets, which are expected to grow at more than double the rates at which the mature markets are growing. So we are seeing an extraordinary interest in emerging markets if anything this is what our observation is on this landscape change.

Rahul: Just wanted to know the acquisition of Perlican would be effective from when. And do you think there will be a reasonable spurt in R&D expenses for the quarter and for the year going ahead.

GV Prasad: The transaction has not been completed yet, just got board approval today. In the next few days maybe in a couple of weeks we should complete the transaction. Consequent to this I do not see a significant raise in R&D expenses; R&D expenses should remain at the current levels.

Rahul: So additional or you are trying to drop those molecules which were with Perlecan or what is the status …

GV Prasad: One of the products has been terminated. One product 10945, which we had taken through Phase I, we are looking at licensing out. That means we would not be spending anything on the development of that compound. The other two are still R&D programs we are working on backup candidates to further improve the efficacy and safety province of the other two assets. So it is just a little incremental R&D in these two programs that would be.

Rahul: So you will maintain your 7% to 8% guidance for R&D.

GV Prasad: 7%.

Sonal: Yeah a couple of questions from my side coming back, firstly could you walk us through how you have sort of combined the API and the CPS business because I think if you just add like on like how does Mexico get added into the system, I just would like to understand.

GV Prasad: Are you looking for a breakup of the numbers or…

Sonal: No I am looking at, I mean if you look at last year's numbers they do not, I mean in terms of the geographical segments that you have given within that they do not seem to, I mean I want to know where is Mexico being added, is it purely North America or is it being disconnected.

GV Prasad: No it is part of the PSAI business.

Sonal: No that I understand, but it is not within anyone of the…

GV Prasad: Now see it is depended on where the product is sold, so the bulk of the production from there goes to Europe. So probably Mexico is largely reflected in Europe and to some sales in North America also.

Sonal Gupta: Right, okay great. Coming back to this Perlican question, I want to understand how you would be accounting for that and before that what you see as the rationale for buying back the stake really speaking. I mean was there a sort of clause where you had to buy this back.

GV Prasad: Yeah there was no clause, it was as negotiated arrangement. As part of the Perlican process, Perlican had many rights to R&D from Dr. Reddy's so they had first right on right of refusal on products. And the backup programs to all these four assets were part of the Perlican process. So it really limited our flexibility to conduct our licensing and R&D programs so we felt that it was worth reacquiring the shares and integrating Perlican into our R&D structure.

Sonal: Right and how will the transaction be recognized…?

GV Prasad: It will be a share purchase. So there is $9.5 million cash in Perlican, we are going to pay $18 million to the investors to acquire the assets and the cash and the rights.

GV Prasad: There is some tax loss also so the impact of the P&L will be minimum.

Sonal: Okay. And finally I just wanted to understand are there any elements of one time nature because of the acquisitions in this quarter which are there in the SG&A expense.

GV Prasad: Not in terms of the acquisitions itself but there are some legal costs which could be one time.

Sonal: But would you be able to quantify those or….

GV Prasad: It is difficult to quantify because every quarter there will be some exceptions.

Rajesh: Good evening gentlemen. Just wanted to know why there is a significant difference in profit after tax between US GAAP and Indian GAAP consolidated it is about 40% and about 43 Crores. Yes 92 Crores and 135 Crores.

Nikhil: Yes the difference is Rajesh on account of the amortizations treatment which is different under the two GAAPs.

Rajesh: Okay so you mean the whole difference is because of that.

Nikhil: Every quarter you see the difference, even in the 4th Quarter there is a difference between the profits of US GAAP which is higher than Indian GAAP consolidated.

Rajesh Vohra: Yeah but the difference is for FY2008 is hardly about 9% to 10% this quarter it is 40%.

Nikhil: Yeah so for FY'08 couple of quarters will not give you the right perspective because of the exceptional tax gains that we had in US GAAPs the 4th Quarter gives you that difference where the difference was quite high between the two GAAPs and so is the case of 1st Quarter, the difference here is largely on account of the amortization treatment which is different between the two GAAPs.

Rajesh: Okay and Saumen you were talking about those balance sheet FOREX related mark-to-market losses 70 Crores and then a gain of 37 Crores …

Saumen: That is unrealized.

Rajesh: Yeah sure, so where does that get reflected in your P&L.

Saumen: No, this does not get reflected in the P&L; that is balance sheet.

Rajesh: Okay the whole amount so 15 Crores of the gain that you have mentioned is the realized one.

Nikhil: That is correct Rajesh and in balance sheet it goes to the equity and reserves other comprehensive income as per the US GAAP accounting procedure.

Saumen: And entire 15 Crores is not realized there will be always some realized and some unrealized there will a breakup of that also.

Jesal: Yeah I just wanted to actually get some idea about how Mexico CPS and generally how the CPS business has done in this quarter.

GV Prasad: The CPS from India is doing quite well. The Mexico plant witnessed a slowdown because there has been a slowdown in the off take of Naproxen for OTC product. Going forward I think we will not see the large volumes that we saw a couple of years ago. There has been a slowdown in Naproxen. And we will use that capacity for other products and there are number of opportunities in the pipeline in which the plant will be utilized for.

Jesal: So is there a sequential growth that you are seeing, I mean the Mexico business is it sequentially at the same level as it was in the 4th Quarter last year.

Saumen: We do not have the data straight away with us now.

Jesal Shah: No problem sir.

Saumen: We can take it later.

Jesal: Sure the other question was what is your sense, I mean because you know the reorganization it is difficult for us to get a sense on how the gross margins have moved the way we used to track them in the various other forms. So it will be very useful if you can give us some idea about how the gross margins have moved in division of classifications.

Saumen: See this the way now we will be doing the business segment reporting Jesal, basically what we are doing is you know it is slightly global optimization that we are doing. So because even if earlier we would have put branded formulation the gross margin was an aggregate of various products at multiple levels of gross margins. I think we will have to get into these now overall global generics we have 58% gross margins. So that can be the base on quarter-on-quarter one can track that.

Jesal: Okay. And about Germany you know you have talked about how the margins will improve back to FY'07 levels have you seen that already in the 1st Quarter.

Saumen: Yeah we are hopeful at the EBITDA level we will get back to the FY'07 levels.

Jesal: Sure but have you sent some of the indications happening…

Saumen: Yeah if we would not have seen it we will not be able to make that statement.

Jesal: Okay good. And the last question is on the tax thing, here sir it is up by 17%. What is the full year guidance now on tax?

Saumen: 17% is on India GAAP but US GAAP I think it is going to be around 15.2% or something that is EBIT tax item.

Jesal: So is that the guidance that we should be looking for the full year.

Saumen: That is the effective tax rate; effective tax rate is taken always for the full year...

Sameer: Hi good evening everyone. If you can just share with us what should we expect once the transition from US GAAP to IFRS sales offering level and net profit?

Saumen: From next quarter when we present that you will obviously understand the difference because we will restate the Q1 numbers in IFRS and the US GAAP numbers is already disclosed now. There could be something, which will go either way overall effect for the year we do not anticipate much of a change, but there could be you know something, which will go into higher depreciation and amortization.

Saumen: Yeah because of the acquisitions accounting, this will be considerably different. So we will comeback to you at the end of Quarter 2 but overall for FY2009 we do not expect any much of a significant difference between what would have been in the US GAAP vis-à-vis what would be in the IFRS but if you have to do the FY'08 then there would be a significant change.

Sameer: And that would be for FY2008 where would the change be.

Saumen: We will comeback to you next quarter when we have the exact numbers.

Sameer: Okay sir one more, final point on this for fiscal '09 different elements of guidance that could not undergo a change.

Saumen: We are not changing anything whatever we have told you last quarter.

Sameer: No under the new accounting.

Saumen: No we are not.

Sameer: Okay second thing is about you know the earlier plans of issuing warrants to the promoters so if you can just update us where do we stand over there.

Saumen: No this has to be taken through the AGM tomorrow.

Sameer: So it goes to AGM tomorrow.

Saumen: Yeah we have in our annual report if you see there is a particular item in the notice to the shareholder.

Sameer: And after that what would be the key milestones.

Saumen: If promoter's want to exercise it in terms of full or part it is at their discretion but they have a limit up to that much, they can do it then they will have to pay 10% of that within the next 15 days.

Sameer: Okay and the pricing would be….

Saumen: Around 697.7; something like that? I can get back to you on the exact, it will be around that.

Sameer: Okay and after AGM would you require any other regulatory approvals or …

Saumen: No AGM will be the final approval. Of course all SEBI guidelines and all other requirements have to be made.

Sameer: And just one final point, is the company seeing anything you know out of expectations as far as the input cost inflation is concerned, material cost or wages or something that you think could be at risk.

Saumen: Yeah some of the material cost and definitely we have witnessed pressure of inflation pressure and also materials, which are coming from China, but what we have seen our gross margin is after that.

Sameer Baisiwala: And anything that you want to share on the wages side, salary side.

Saumen: Salary side has already happened so the effect is there on the new SG&A line now.

Neelkanth: Yeah thanks, you know this is more of a blue-sky kind of question. You know the implications of Teva acquiring Barr and Teva seems to be growing bigger and bigger you know how does that change your strategy and how would you be positioning yourself. I mean I think there was a time when there was still as chance for most of the Indian big companies to you know at least acquire the scale to be in the top 5. Now the top 3-4 seems to be running away, I mean does that in anyway change the way you approach it and what would be your strategy going forward at this kind of a level.

GV Prasad: On lighter note or not we will probably will get there without doing much The company has been acquired by Teva.

Neelkanth: I know I mean that is true, but does that, sorry go ahead.

GV Prasad: Certainly going to be a lot of I mean there is significant amount of market power that Teva is acquiring. And they really control the entire chain, but there are a whole slew of customers, which they are not servicing right now, whom we can serve and serve them profitably. So I think there is space, customers also want an alternative to Teva because they see Teva getting so strong that they you know are a little worried about that. So I think there is room to play …

Neelkanth: Yeah sir one of the advantages I guess you have and also looking at the UK where Teva completely dominates the US which is at the same, one advantage I guess you had in

Germany was that you were much bigger than them but now after acquiring Barr I guess they, I do not remember the exact ranking, but they mentioned they were somewhere in the top 10. Does that I mean in anyway reduce your advantage in Germany.

G.V Prasad: In Germany they are not a big player. Through Pliva they had a presence so it is not that significant.

Neelkanth: Okay and sir the growth in international formulations outside of Russia despite depreciation of the rupee 19% is not bad but I think compared to the growth rates we were used to in the past, is there some one off should we expect growth to recover going forward.

GV Prasad: We are seeing growth in many markets like Ukraine, Romania and all of these places. So we should continue at that about 20% growth overall.

Saion: At least I just wanted to understand when you are saying the profitability which going forward now SG&A is growing at 24% more or less in line with your top line, I mean are you indicating an increase in margins of ROE going forward if that is the case what is the kind of target that you have in mind.

GV Prasad: The SG&A which has gone up is due to multiple reasons some of those reasons would not continue when some will. You will also see greater margin in some segments of our business and certainly some higher margin products are going to be launched in the second half of the year. So overall we expect to improve profitability.

Saion: So can we expect the growth in SG&A to slowdown going forward?

GV Prasad: Yes, we expect to see slowdown of growth as well as leverage on the SG&A already which means generating more growth out of the investment in SG&A.

Nitin: Hi good evening, I just want to check if you were to take like a 2 to 3 year view out not specifically the current year in terms of the first-to-file filings is there you know any of those opportunities that are relatively based upon patent expiries and all which are going to happen and there is not any legal challenge involved that one can look at some of those potential FTF launches over the next 2 to 3 years.

Nikhil: Yeah Nitin one is if you are taking a 2 to 3 year view we have a combination of opportunities, which are both FTF driven as well as difficult to make products. We discussed this on the previous call just listing them one is omeprazole OTC that is an FTF opportunity we are currently in litigation. So that is something that if you are taking a three year timeframe that is something to look out for. The other thing is fondaparinux that is a product that we are developing with Alchemia we talked about this earlier that is again a difficult to make product. And then slightly in the outer years we have Rosiglitazone as an opportunity where it is a shared exclusivity it is just Dr. Reddy's and Teva. And finasteride where we have settled with a one year go early launch in that particular product and plus we have a few other opportunities which we obviously cannot share at this point in time. So as we reach critical milestones we will talk about them.

Sonal Gupta: Yeah thank you just one more question from my side was you have added the Shreveport facility to your generics side, is that not a contract manufacturing unit and should not it be on the PSAI.

GV Prasad: Yeah today the business from there is primarily contract manufacturing for other OTC companies, but going forward our emphasis is to use that as infrastructure to serve our North American generics business and also our North American OTC business. So it is really part of that unit.

Sonal Gupta: Right so in terms of I mean if you were to sort of split it up at full capacity how much would that capacity be utilized as contracting manufacturing verses by you only on your own.

GV Prasad: So today the revenues are around $40 million, significant capacity and room for expansion there, also it is hard to put a number to you know the capacity revenue from the capacity, so it depends entirely on the product portfolio but it is more than enough to service of North American Generics needs for the near future.

Bino: Yeah I, studying for a little more color on the US business, like US Generics business excluding the Shreveport facility it seems like it grew more then 40% so can we get a little color about where this growth exactly is coming from and how sustainable going forward this would be

Nikhil: Yes, the growth is combination of the volume growth that we are seeing in some of our key products and this is driven by some of the products like Simvastatin and Fexofenadine we are seeing and improvement in the volumes. Simvastatin has also to do with the therapeutic switch study handle like volumes are increasing so we are benefiting from that. And also in terms of the new product launches in the last 12 months so it's a full year effect of you know the launches last year plus and the first quarter of this year we are seeing that impact you know the growth so we are benefiting from that. And plus if you recall OTC something that we launched in the 2nd quarter onwards. So that is also benefiting as in the 1st quarter.

Saumen: So you can see a quarter-on-quarter how it is growing so maybe the Q4 of FY'08 you can see and doing a compare it will also give you a better percentage

Bino: Right but how is the competitive scenario in this key product areas if competition catching is fast so that you may risk losing some market share.

Saumen: It is a competitive market, nothing there is an in a situation were as a competition of low intensity. That the new launches there we have put there we are also getting good market share.

Bino: Right, say that is multiplayer, products I was getting little more clarity on the FOREX policy it seems like some of the contracts you have included in the P&L which includes both realized as well unrealized while some of them go to the balance sheet so what is the policy exactly.

Saumen: This follows as per the US GAAP hedge, derivative accounting policy, in terms of our hedging policy I can explain to you, what we do, we hedge our current receivables and we take a maximum you know 12 to 18 months window, we do not go beyond that. And whatever future dollars sales we are expecting we only hedge 20% to 25% of that.

Bino: That is fine, but what goes to the balance sheet and what goes to the balance sheet and what…

GV Prasad: As for the US GAAP accounting of derivative accounting then you know FOREX contracts and you know your advances to subsidiary you know these are things wherever there is unrealized mark-to-market that goes to the balance sheet, then in terms of whatever hedging we have taken for a future and on that whenever it is getting realized during the quarter, it will come onto the P&L side.

Bino: Okay so where exactly is the FOREX gains in this quarter coming from.

GV Prasad: One has to get in the details of accountings then unfortunately I do not have the entire data in front of me right now, one can explain to you later.

Nimish: Yeah, hi I just, in fact I got a little confused on the SG&A part because Saumen mentioned that the number I mean this run-rate is going to be the same for the next quarters and Mr. Prasad mention about that, probably you know coming down or so can you just sort of explain that.

Saumen: No, but we what Mr. Prasad mentioned that we are going to leverage the SG&A more and more in coming quarter. And when somebody asks a question about the current SG&A what we have put in this quarter, whether the run-rate would be similar in coming quarter, you said there could be some variation because there is always you know some exception in some specific quarter. And one element of SG&A which is freight which is directly linked to the total volume of products that is supply there is a volume growth in the freight that will obviously will go up. So given all these things we expect there is a percentage of revenue SG&A to come down in future.

Nimish: I say in FY2009.

Saumen: In FY2009.

Nimish: I see so it will be not 31% as interest today is what you mean to say.

Saumen: We expect.

Nimish: Okay and once again on the foreign exchange part if you were to account the foreign exchange as per the Indian GAAP what could be the MTM losses whatever you would been reporting.

G.V Prasad: I do not have that data…

Nimish: Can I say maybe around 35 Crores of the net unrealized loss that you mention that in the previous question?

Saumen: Well that goes to balance sheet; it does not come to P&L.

Nimish : That is as for the US GAAP right.

Saumen: Yeah.

Nimish: As for the Indian GAAP that would be coming to Indian P&L, is that fresh statement…

Saumen: Can we check and get back to you on this question.

Nimish: Okay, okay thank you.

Neelkanth: Hi this is a question on OTC business in the US, your sales this quarter were Rs.237 million worth that if I remember right about 260 million last year, this fair in terms in decent accelerating, what should we expect the run-rate to be say a year down the line. And are you benefiting from the bankruptcy of Liner Health.

Satish: Okay, in fact we had launched this business last year so there are more aggressive target compare to last year on the OTC business, obviously the space vacated by liner is something we are going after but actually if you see opportunities in the OTC space itself I think there is tremendous value that we can create and we are expect to going after that segment. And if you also, some of the opportunities that we have, Nikhil just mentioned it earlier the omeprazole OTC is available with us which offers the significant opportunity to scale up this business.

Neelkanth Mishra: Right but hasn't that been that launched by Perrigo.

GV Prasad: Yes, Perrigo has launched a capsule version of it and we have the other version.

Neelkanth: Okay and you can launch by December 2009 is that correct.

GV Prasad: It depends on the legal situation we are still working through that.

Neelkanth: Okay so you know the, trying to assess is it going to be you know I know it is going to be a very hedgy, it is a very large opportunity but trying to assess if this will be $30 million opportunity a year down the line or a $50 million opportunity or that $10 million opportunity, I am just trying too..

GV Prasad: It is more like the $50 million opportunity.

Neelkanth: A year down the line?

GV Prasad: Yeah.

Nikhil Shah: We thank all the participants for joining us on the call today. If there are any further clarifications, please feel free to get in touch with the IR desk either on mail or on phone. Thank you.