DR. REDDY'S LABORATORIES

Earnings Conference Call

July 27, 2006

Nikhil

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Thank you, Pratibha. A warm welcome to all of you and our apologies for the slight delay in starting the call. I am Nikhil Shah, the Investor Relations Officer at Dr. Reddy's. Thank you for joining us on the call today as we discuss Dr. Reddy's financial results for the first quarter fiscal year 2007. By now, you should have seen the press release as well as the additional financial disclosures, which were released earlier today. The results are also posted on our Web site 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, Vasudevan, who has now assumed the role of the Head of our European Generics business and Saumen Chakraborty, our new Chief Financial Officer.

Please note that all discussions and comparisons during the call will be based on USGAAP 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 ensure full disclosure, we are conducting a live web cast of this call and a replay of the call will also be available on our web site soon after the conclusion of the call. Additionally, the transcript of this call will be made available on our web site at www.drreddys.com under the quick links icon.

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 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

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Thank you Nikhil. I'd like to thank you everyone for joining us as we announce Dr. Reddy's results for the first quarter of fiscal 2007.

Before I begin the discussions on the results, let me place on record our appreciation for the contributions made by Vasu as the Chief Financial Officer in driving growth at Dr. Reddy's over the last two decades. AND I am sure he will continue to add significant value in his new role as the head of our European generics operations as we set out to build a dominant presence for Dr. Reddy's in Europe. I would also like to take this opportunity to introduce Saumen Chakraborty as our new Chief Financial Officer. His additional responsibilities include Information Technology and Business Process Excellence. Saumen has been with Dr. Reddy's for over 5 years now and has played a significant role in strengthening our HR practices as the Global Chief of Human Resources.

Now, let me begin with the headline numbers. Revenues for the quarter are at 306 million dollars as against 122 million dollars last year. Gross profit margin is at 43 percent of revenues. SG&A is at 73 million dollars. R&D investment for the quarter is at 4 percent of revenues. Profit after tax is at 30 million dollars compared to 8 million dollars last year. This translates to earnings per share of 40 cents as compared with 46 cents for the full year of 2005-06. So, as you can see, the first quarter has been a very strong quarter benefiting from the authorized generics opportunity in addition to the continued momentum from the underlying core businesses. Let me begin with the performance of the core businesses.

If you exclude the significant contribution from the acquisitions and authorized generics, the underlying revenues surged ahead to 162 million dollars against 122 million dollars last year. This represents a strong growth of 34 percent over last year with contributions from all businesses and geographies. The quality of the revenue mix of our core businesses is also reflected in the gross margin ratio for the quarter, which sustained within the historical range. The global API business continued its growth momentum with a 20 percent growth driven by the performance in our key international markets. The global CPS business including the contribution from the acquisition is off to a very good start.

In terms of the finished dosage business, revenues in the US witnessed a significant step-up on the back of 3 key launches during the quarter. As we have been discussing for the last few quarters, our investments in building the US generics pipeline are now beginning to deliver with several product launches lined up over the next few years. The rest of the world markets, essentially the branded formulations business, as we call it internally, continued its strong performance driven by the key markets of Russia, CIS and India. The other interesting aspect of the growth which is truly satisfying is the fact that it has been fairly diversified geographically with contributions coming in from all key markets. This level of performance clearly validates the strength of our core businesses, which continue to deliver sustainable growth year after year driven by a unique combination of geographies as well as products.

I would also like to draw your attention to another aspect of our performance which is the ongoing highly intensive effort in pursuing business development opportunities to accelerate the growth in all our businesses. Last year was quite productive, to say the least, when you look at the number of different deals that we concluded in the various business segments. Let me recap some of these deals. We executed the first ever authorized generic deal from India with Merck for Zocor® and Proscar®. In early February, we acquired a set of in-marketed products in the US and followed it up with similar deal in Spain. On the discovery front, we entered into two joint development and commercialization arrangements. We also jointly promoted Perlecan Pharma, India's first integrated drug development company, as a response to mitigating increasing clinical development costs. And more importantly, the two company acquisitions, one in Mexico and the other in Germany, which in fact is the largest overseas private sector acquisition from India. I am very pleased to say that <u>all</u> these initiatives have already started contributing significantly to the current performance of the company and I am quite confident that they will continue to add value to our future growth as well.

In the CPS business, I am also quite satisfied with the performance of our acquisition in Mexico which is off to a good start for the year. Revenues at 27 million dollars benefited from higher off take in the first quarter. And we are making good progress in increasing the breadth and depth of our relationships with several pharmaceutical companies. The profile of our global customer base is quite diverse and includes a number of large pharma as well as emerging pharmaceutical companies. I remain confident that the CPS business will achieve the 100 million dollar revenue mark by the end of this year.

Coming to specifics on the authorized generics deal, combined revenues from simvastatin and finasteride were at 73 million dollars. We expect to achieve market share in the range of 30 percent for simvastatin and upwards of 25 percent for finasteride. Our marketing team has done a good job so far as the market shares are concerned despite the challenging market conditions particularly for simvastatin. I am looking forward to the continued performance of both these products during the remaining period of exclusivity.

Now, let me also talk about our performance in Germany, which I assume is on top of everybody's mind. As you are all aware, the new set of reforms in Germany was introduced in May. As a response to the reforms, the large players such as Hexal and Stada announced aggressive price cuts. Our teams in Germany carried out detailed evaluation of the impact of the reforms as well as the competitor response on our portfolio. Consequently, we have taken average price cuts of about 24 percent on many of our products. Revenues for the quarter were lower at 44 million dollars due to lower off take as a result of the reforms. The gross margins were at about 52 percent of revenues. The margins would have been higher but for the one-time shelf stock adjustments that we had to book during the quarter as a result of the price decreases.

Let me now talk about another key item on our P&L, which is the R&D investment. During the quarter, we invested about 17 million dollars at a gross level which is about 7 percent of our sustainable revenue base after adjusting for authorized generics. At a net level, the R&D investments are much lower at 12 million dollars. We benefited from the income recognition of about 3.4 million dollars for generics product development and this is under the ICICI Venture partnership. We also benefited from the income recognition of 1.8 million dollars for clinical development costs and R&D services under the Perlecan Pharma venture. As communicated earlier, our intention was to mitigate the impact of increasing R&D investments through suitable risk-reward partnerships. We have achieved this objective and the benefit of these partnerships is quite visible now. Our overall R&D investments are now settling down in the single digit range from the historical high of 13 to 14 percent of revenues. During the quarter, we continued the expansion of our product portfolio with 7 ANDA filings, 4 DMF filings globally and about 72 international dossier filings.

With this introduction, let me hand over the discussion to Vasu for an update on financials.

VS VASUDEVAN, Chief Financial Officer

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Thank you Prasad. Good evening everybody.

I am sure all of you have several questions on your mind related to the various moving parts in the financials. Let me explain the financials in greater detail.

As Prasad mentioned, the key takeaways of our performance this quarter are the sustained growth in revenues and margins of the core businesses and the significant impact of the various business development initiatives on our current performance.

Looking at specifics, total revenues for the quarter were at 306 million dollars as against 122 million dollars in the same period last year. The first quarter reflects the first full quarter of consolidation of both our acquisitions.

On the authorized generics, simvastatin contributed 65 million dollars and finasteride about 8 million dollars in revenues. Combined revenues from the two acquisitions were at 71 million dollars. Mexico had an excellent start with first quarter revenues at 27 million dollars while betapharm contributed 44 million dollars in revenues.

Let me explain the key highlights for each of these businesses.

In the API business, revenues grew by about 20 percent to 50 million dollars. This growth was driven by key products of sertraline, naproxen, moxifloxacin as well as development products in the US. The gross margin ratio for the quarter is at about 27 percent for this business.

Revenues from the branded formulations business grew by a strong 29 percent to 73 million dollars. The continued momentum in India, Russia and CIS regions were the key growth drivers. In India, driven by performance of key brands and new product launches in the last 2 years, our performance was better than the overall market growth. In Russia, we grew by 45 percent on the back of sustained economic growth, our focused marketing initiatives as well as opening up of new lines of businesses – both in OTC and hospital segments. These two new segments now account for about 26 percent of our total revenues in Russia. The growth in Russia tends to be higher in the first half compared to the second half due to the seasonality factor. We believe this year also, it will not be any different. We also witnessed impressive growth in CIS markets of Kazakhstan and Ukraine. Overall gross margins for this business is at 70 percent of revenues.

In the US, overall revenues were significantly higher at 93 million dollars as against 7 million dollars last year. I have already discussed the revenues from the authorized generics products. The other key product launch was that of fexofenadine, which was launched after the expiry of 180 day marketing exclusivity. This product added revenues of 11 million dollars to the base. During the quarter, we sold 6 products more than in the same period last year using our own labels. Even after excluding the contribution from authorized generics, margins for the base business have improved from the previous levels benefiting from the launch of fexofenadine.

Overall revenue contribution from Europe is at 52 million dollars. Revenues from Germany are at 44 million dollars. The performance of recent brand launches of alendronate, diclac gel and fentanyl patch has been quite satisfactory which helped to partially offset the price reductions in some of the older products. Revenues from the UK market declined 26 percent over last year to 9 million dollars. The relatively high pricing environment in the last year did not sustain beyond the first two quarters and this makes the year on year comparison quite challenging. However, what is more satisfying is the volume growth in the key products of omeprazole and amlodipine which reflects our market leadership position and ability to take advantage of the market dynamics. During the quarter, we launched sumatriptan and glimperide in the UK market.

Overall revenues for the CPS business are at 31 million dollars. The gross margins for the quarter are at 30 percent of revenues.

Moving on from revenues to expenses, on the SG&A line item, expenses are at 73 million dollars. This works to 31 percent of revenues adjusted for revenues from authorized generics products. Of this, acquisitions contributed 25 million dollars to the total SG&A base.

On R&D front, we invested about 17 million dollars at a gross level which is about 7 percent of the adjusted revenues. We also recognized 3.4 million dollars of credit under the ICICI Venture partnership. We recognized 1.8 million dollars toward the clinical development of the 4 NCE assets assigned to Perlecan Pharma as well as R&D services provided by Dr. Reddy’s to Perlecan Pharma in connection with development of these assets.

Amortization at 9 million dollars includes the amortization of intangibles related to betapharm, Mexico acquisition and other items.

During the quarter, we recorded net interest expense of 5.5 million dollars as against net interest income of about 3 million dollars in the same period last year.

The tax provision for the quarter is at about 4.5 million dollars or 13 percent of our pre-tax profits. This is primarily due to the significant increase in profitability, one-time profits from the authorized generics deal partially offset by the benefit of deferred tax liability on amortization of intangibles.

Profit after tax is at 30 million dollars as against 9 million dollars last year.

The net working capital has increased to 180 million dollars as of end of June from 116 million dollars as at the end of March. This increase was driven by the significant step up in sales in the first quarter including the authorized generics opportunity and the inventory build up of the key product launches. With major products already launched in the first quarter, the working capital requirement is likely to peak in the first half and normalize in the second half of the year and we have put in place measures that will enable us to manage working capital efficiently.

With this overview, I will now ask Saumen to say a few words before he hands it over to Prasad to make the concluding remarks.

SAUMEN CHAKRABORTY

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Good evening to all of you. I am truly excited to assume the responsibility of the CFO of Dr. Reddy's. I take cognizance of the efforts of Vasu in building a strong finance organization and at the same time I am looking forward to the challenge of further strengthening the finance organization to support the transformation of the company.

I am also looking forward to interacting with all of you in the future. I now hand over to Prasad to make the concluding remarks.

GV PRASAD, Chief Executive Officer

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Thank you, Saumen.

The overall performance of the first quarter has been good with strong contribution from the core businesses, which gives us sufficient time to integrate the requirements of an incoming acquisition in the next few months.

Looking ahead to the rest of the year, I am excited with the prospects of all our businesses and geographies, particularly the US market. This year is going to be a significant year for the generics business in the US.

Speaking of the outlook for the rest of the year,

I am particularly looking forward to the performance of simvastatin and finasteride in the remaining period of exclusivity. However, we need to closely monitor the pricing dynamics in this period. On fexofenadine, though our current market share is at about 10 percent, we are targeting market share upwards of 15 percent in the coming months as we add a few more accounts on this product. However, the timing of additional competition for this product still remains unclear. Simvastatin and finasteride have been good opportunities for us. The other interesting exclusivity opportunity could be ondansetron toward the end of the third quarter. We are awaiting final approval and we have to see how the events unfold on this opportunity. In addition to this, we have a few other launches lined up as well. To capitalize on all these opportunities, we will have to execute flawlessly in terms of demand fulfillment and gain the desired market shares. AND I am confident that the organization as a whole is geared to deliver on these opportunities.

To sum up, over the last few years, as you are aware, we have made significant investments in building one of the largest pipelines in the US generics industry and the front-end to deliver the pipeline. And as I have discussed in the previous call, our key priority for the US generics business is to make it self-sustaining and achieve critical mass over the next few years. We remain on track to achieve this objective. Our pipeline is now beginning to unlock value with several launches expected this year onwards. We are supplementing our internal product pipeline through a combination of R&D partnerships and in-market product acquisition opportunities which we believe will create additional growth opportunities.

In the API as well as the branded formulations business, we expect the growth momentum to sustain on a year on year basis. This reflects our belief in the strength of the portfolio of markets and products that we have built in each of these businesses. But at the same time, we also need to recognize the quarterly seasonality patterns for many of the markets.

Moving on to Europe, in Germany, while the first quarter performance was affected by certain one-time events, we expect sales and margins to improve in the coming quarters. We have had good brand launches in alendronate sodium, diclac gel and the fentanyl patch and we have achieved significant market shares for all these products. We are also opening new countries such as Spain and Italy which are expected to start contributing significantly to the overall performance and growth in the coming years.

As to the CPS business, as I mentioned earlier, I am quite pleased with the progress achieved by our business development teams in broadening the customer relationships, particularly with large pharma companies. This progress gives me the comfort that we will achieve the 100 million dollar revenue mark by the end of this year itself.

As I discussed earlier in my presentation, I am quite happy with the outcome of many of the business development deals concluded in the last several months. We will continue to push the business development agenda aggressively to supplement the internal product development programs. AND this we believe will add more power to the growth momentum across businesses and geographies.

Putting all this together, I believe that the key elements of sustainable and profitable long-term growth are now falling in place. AND I am quite excited with the way our business model is evolving into a unique, balanced global portfolio of businesses, geographies and products.

To sum it up, we have achieved critical mass in our API and finished dosage businesses and they are well established sustainable and profitable growth engines. With several exciting opportunities lined up over the next few years, the generics business in the US is on track to become self-sustaining and more importantly achieve a critical mass. In Europe, we are now a significant player with good ground presence in UK and Germany. We intend to build a dominant presence across Europe in the next few years. Betapharm brings in strong capability on the front-end in one of the largest branded generics market in the world. We are also actively looking at expanding our presence in other markets of Spain, Italy and France. To pursue these opportunities, it is important that we step up our production capacities. Toward this objective, we are making significant investment plans for creating additional capacities, particularly for the generics as well as the API and CPS business.

Even as we make progress toward building a global generics business portfolio, we will continue to push the innovation agenda in our Drug Discovery, Specialty and Biologics businesses, which will serve as an important bridge as we transition into a discovery-led global pharmaceutical company. We continue to make good progress in expanding the pipeline in these businesses. The most advanced of the NCE assets is balaglitazone. We are looking forward to the results of long-term carcinogenicity studies subject to which we hope to move it into Phase III clinical trials by the end of this fiscal.

To conclude, as an organization, we have used the opportunities that have come our way quite creatively to create a highly competitive business model. It is the strength of our globally diversified business portfolio that makes us excited about the future of Dr. Reddy’s as we transition into a **billion dollar** global pharmaceutical organization.

This ends my discussion and we can now leave the floor open for the Q&A session and will be pleased to answer your queries. Can we have the first question…

Interactive Q&A

Elliot Wilbur: Hi, good evening. Thank you for taking my questions. Want to ask two questions. First is with respect to your general outlook for pricing conditions in the US generic market. We've heard mixed signals from some of the industry leaders over the past couple of weeks. Some are indicating that they expect the double digit price equation to continue throughout 2006. Yesterday Mylan Laboratories talked about this with respect to current business pricing stability. So I'm wondering if you think that perhaps we have kind of reached a bottom in terms of the rate of priced equation and things should improve going forward or if you would expect further pricing additions over the balance of 06 and then my second question has due respect to the authorized generic simvastatin, could you maybe provide us with some color on how do you think Merck's rebating tactics at the manage care level have impacted the uptake of your authorized generic, thank you.

GV Prasad: Well, thank you Wilbur. With respect to the pricing outlook I think it is very specific to the competition that is there for each molecule. For plain vanilla products where there are large number of players, the discounts have been very very severe and I don't think we expect this to change in the near term. So, for products which have multiple competitors from day one the rapid price erosion will continue and I think pricing will be under pressure in the near term. With respect to simvastatin, yes Merck did some unusual things but I think that impacted the entire generic market only marginally only with respect to one or 2 customers but otherwise our market share show that we have done a decent job of the product.

Visalakshi: On betapharm, could you elaborate as to what is the extent of this one time shelf stock adjustment for the quarter? And my second question is a more generalized question on this Rockefeller Bill, which got introduced in the senate last week on, you know, talking about banning authorized generics. So would the management have any comment on that?

GV Prasad: Vasu will take us through the first question and than I will add.

VS Vasudevan: Sure, regarding the German market and Betapharm performance, we do expect I mean it was a situation similar to India when the VAT situation happened and also the price reduction which we had to give in the market. It is only an internal estimate at this point of time, clearly we expect this to play out in the second quarter. At the end of the second quarter we will definitely know what extent this was in and what extent we have been able to recover the whole aspect of this. So, it will be very difficult to put an estimated number to this at this point of time though we have internal estimates.

GV Prasad: With respect to the Rockefeller Bill, I think in some ways it is positive for our ondansetron molecule if it comes before that, but I think it is unlikely to happen, so let's wait and see what happens to the bill that has been introduced.

Visalakshi: But are you moved, what do you think of the chances of this bill for the passage of this bill?

GV Prasad: I really do not understand the political system in the US, but the bill seems to be positive overall for the generics industry.

Visalakshi: Finally question on generic Zofran, do you expect six month exclusivity for generic Zofran Tablets.

GV Prasad: Yes, that is our impression that we will have the exclusivity rights, but again that is dependent on the FDA's approval and we are awaiting that.

Rahul Sharma: For simvastatin and finasteride, how much of inventory is there in the current quarter results, which is reflected in the results.

Nikhil: The initial sales estimate in terms of simvastatin and finasteride they represent about 4 to 6 weeks of sales.

Rahul Sharma: So in the ensuing quarters probably you will see it even out?

Nikhil: Yes

Sameer Baisiwala: Hi! Good evening, my first question is on Risperdal case, has this seen consolidated with the Mylan.

Nikhil: The case has been consolidated with Mylan and the hearing was completed in the first week of July.

Sameer Baisiwala: And when do you expect the ruling to be out?

Nikhil: The estimate is by the end of the calendar year, but again as is the case with all court decisions you really cannot predict the exact timing.

Sameer Baisiwala: Okay. And my second question is regarding Germany, you did talk about shelf stock adjustment to take into account the price cuts, and with that the gross margins work out to 52%, now does the quarter take into account the full quarter impact of the price cuts?

VS Vasudevan: At this moment Sameer we assume this has happened totally. Then as again as earlier told Visalakshi, that we will wait and watch, but our assumption today is we have taken it fully.

Sameer Baisiwala: Okay, so which means that this was effected first April.

VS Vasudevan: It was effected the first quarter, the pricing changes happened in the mid May and was effective from July, so it is through a certain period in April-May also.

Sameer Baisiwala: I am not quite sure I understood, so can we say that for the current quarter 52% is the gross margins based on the current price levels?

VS Vasudevan: 52% gross margins have been achieved after whatever stock adjustments and other items which we have done during to the quarter, it is net of everything.

Sameer Baisiwala: Okay, and Par has issued certain statements about re-stating its account, and the possible implications for its partners, you being one of those, who are effective over the last two years. Have you heard anything from them, any implications for Dr. Reddy’s?

VS Vasudevan: No, as far as we believe there will be no implications for us.

Sameer Baisiwala: Okay

GV Prasad: We have not heard from them.

Sameer Baisiwala: So which means it is still an open issue?

VS Vasudevan: It is an open issue, but we believe that there will be no impact on us.

Rajesh Vora: Good evening and congratulations for super set of numbers. I just wanted to know Mr. Prasad mentioned about the critical mass is one of the key objectives of Dr. Reddy's to attain critical mass in the US. You know in terms of considering the current momentum and maturing pipeline obviously it is much closer than it was before, so if you could shed some light on that, and if Vasu can tell me a little bit in terms of you have 173 million dollar of cash and versus that you have a debt of 726 million dollar, so what sort of capex outlook as Mr. Prasad mentioned about investment in the building production capacities vis-à-vis the requirement for the business and going forward if Vasu can take that.

GV Prasad: In terms of the US business I think critical mass we are well on the way to critical mass and I think we will achieve it in this fiscal year, even if we separate the authorized generics dealer I think we are on our way to achieving critical mass in the current year and as we add products in the next fiscal year I think we are right there. We believe a size of about 150 to 200 million dollars on an ongoing basis is what the critical mass should be.

VS Vasudevan: Coming to the balance sheet there will be cash balances available. We believe the capex programs may require about 100 million dollars spread over 18 months, and we will be able to manage with the own borrowing capacity as well as unlocking of the working capital over the next few months.

Rajesh Vora: Okay. And in terms of significant internal cash generation considering the kind of momentum we have seen in the quarter and going forward, so that would go towards the repayment of debt, if any free cash is left?

VS Vasudevan: Sure, Obviously the debt repayments will be done based on the covenants with the bank.

Rajesh Vora: Sure, and Mr. Prasad, I mean billion dollar is the vision, and obviously you are marching towards that fairly quickly and the efforts towards broad basing the growth across the geographies is also sort of falling in place, so what sort of mix would you broadly look at when you get to that number, would it be 25% each in terms of US, Europe, rest of the world, and India?

GV Prasad: You know if you look at our mix today, I think we have a nice balance between India, US, Europe and rest of the world. And also if you see the geographic spread between businesses, it is again nicely spread between CPS, API, branded formulations and generics. So there is roughly a balance there, but we do see aggressive growth both in Europe and in the US as something that we will pursue in the next few years and we see ourselves growing consistently even beyond the billion dollars in the next few years.

Nimesh Mehta: Good evening everybody and congratulations on a good set of numbers. My first question is related to the pipeline that you have built for simvastatin and finasteride, I am sorry if I had missed it, but can you tell me this sale of simvastatin and finasteride represent how many weeks of your pipeline or how many weeks of sales basically, so that we can have estimate about what can it be going forward?

GV Prasad: Well it will be an educated guess, I think it will be somewhere between 4 to 6 weeks of inventory that is represented in the sales in the first quarter.

Nimesh Mehta: Okay, and what is the kind of price cut that you taken you know over Merck's generic version?

GV Prasad: We are not discussing pricing on this call.

Nimesh Mehta: Okay, you have mentioned about 30% of market share, am I correct?

GV Prasad: Close to 30.

Nimesh Mehta: Pardon, close to 30, okay. And finally when the 180 days exclusivity expires what are your plans, because as I understand you still do not have the approval for simvastatin right?

GV Prasad: Yeah, approval is expected.

Ajay Sharma: Good evening every one and Vasu congrats on your new role. Two small questions, first is on Germany, what is the sustainable level of margins there should we take 54/55 or it could be closer to your normal formulations?

VS Vasudevan: Thank you Ajay, and regarding the margins in Germany I mean it is a branded generics market, so in spite of the price cuts obviously you will see upward of 55%.

Ajay Sharma: Did you say 55 or 65?

VS Vasudevan: 55.

Ajay Sharma: Okay, and secondly, domestic business has grown very well this quarter despite a high base of last year, so is this one off or how should we see that?

Satish Reddy: Ajay it is not a one off, it is sustainable, because most of the growth has come form the top brands in our portfolio and we expect this to continue; also some products that we have launched in the last two years you know if you take both these factors they will try to grow on a sustained basis.

Ajay Sharma: Okay, wonderful, and one last question I want to squeeze in is, is there still a chance of launching Amvaz on 31st Jan next year?

GV Prasad: I would not put a very high probability on that happening given our understanding of the product and its regulatory implications we are not very sure that we will be launching Amvaz.

Ajay Sharma: Okay, understood, thanks a lot Prasad.

Rajesh: Hello, my question is what is the period of authorized generics for Zocor for six months and after that what will be the status of this Zocor, and regarding this Aventis-Sanofi what are the talks going on regarding Plavix?

GV Prasad: With respect to the authorized generic, the agreement is a multi-year agreement, of course the terms change after exclusivity period. During the exclusivity periods the terms are in favor of Merck after that exclusivity period, they are in our favor. So, it is a multi-year agreement and we will switch to our product after the 180-day period. There has been nothing to report on the Plavix front.

Rajesh: See they had talks with you it seems?

GV Prasad: Yeah we had discussions but there is nothing more to report.

Rajesh: Okay, and what is the percentage that Zocor at present in the market?

GV Prasad: We discussed that earlier, it is a share under 30%.

Shubham Majumdar: Congratulations to the management team on phenomenal set of numbers there. I had couple of questions: one was the custom pharmaceutical business has done extremely well and my sense is you are running at a rate faster than what will possibly given out in the guidance of 100 million dollars for the full year. Do you think you would need to revise your 100 million dollar revenue estimate upwards for fiscal '07?

GV Prasad: Well we have not given any guidance but we said that we are within the striking mark of the 100 million dollars. It is likely we would exceed the 100 billion dollars, but that depends a lot on the performance in the next few quarters.

Shubham Majumdar : But this business I would assume is the largely contractual and one would assume the current quarters run rate to be largely sustained going forward into quarters right?

GV Prasad: Part of it is contractual and part of it purchase based. A large portion of the Mexican revenue is based on purchases depending on the demand from our customers, so those fluctuations will be there. But you know at the gross level we are at that run rate.

Shubham Majumdar: Okay, and would you like to just remind me the gross margins you are running on this business?

GV Prasad: 30%.

Shubham Majumdar: 30%. And the second question I had was can you just give us sense of inventories that lies in the trade on individually simvastatin and finasteride.

GV Prasad: No we cannot do that at this time; we are not sharing that information.

Shubham Majumdar: Okay and the third question was could you just update on Plavix any development during the quarter?

GV Prasad: No, no development, as of now there is nothing to report.

Shubham Majumdar: And lastly on ICICI Venture cost sharing is there any sense of the number how the cost sharing will be going forward in the quarter given the ANDA filings pipeline?

GV Prasad: I think we have shared the numbers in our release.

VS Vasudevan: Subham this quarter we have already shared the numbers, it is about 3.4 million dollars, which we have got, and in the next quarter it will depend on the number of filings which we do.

Shubham Majumdar: I am saying prospectively any sense of the kind of numbers that might come through in the coming quarter?

GV Prasad: No, it is difficult to predict this.

Abhay Shanbagh: Good evening sir, a couple of questions: number one on fexofenadine, what sort of market shares you have on that particular product?

GV Prasad: Around 10 percent

Abhay Shanbagh: And when do you expect competition to come in, I mean are we expecting more players, do you expect them in the next couple of months?

GV Prasad: It is not clear to be very honest. It depends on the approvals. And we do not have visibility into that.

Abhay Shanbagh: Fine on the CPS business, you know, you talked about contractual purchases, now this plant was earlier owed with Roche, is agreements were with Roche the purchased one, I mean is it a continuing one or it was developed by you in the last four or five months?

GV Prasad: They are all ongoing contracts largely, but there is some new business also developing in the Roche facility but nothing of that was billed in this quarter; all the business billed during the quarter was historical from Roche, we inherited the business.

Abhay Shanbagh: Okay, and sir the other one was in the internal gross margins, even for the full year the gross margins for this business was around 20%, so there has been a good improvement in gross margins now at 30%?

GV Prasad: Yeah it is a blend between development projects as well as matured API; the development projects have a much higher gross margin.

Abhay Shanbagh: Would that be as a part of the entire contractual business?

GV Prasad: Yeah the CPS business has developmental quantity as well as mature APIs, both of them are there, and they are in the opposite ends of the margin spectrum.

Abhay Shanbagh: How much, you know, contractual I mean the development countries would that be 10-15% of the revenues or it would be much higher?

GV Prasad: Yeah it would be in the range of 15% or so.

Abhay Shanbagh: Okay, one last question, sir as far as Betapharm goes this 44 million dollars of revenue is that after volume growth, because all of us were expecting a good volume growth in that market, so does this account for volume growth and price discounts or only price discounts?

GV Prasad: Volume growth was not there because you know there were some level of de-stocking in anticipation of this price reduction, so there was no volume growth and there was a discount.

Abhay Shanbagh: Overall what could happen is price discount I mean could be nullified by volume growth but that could impact margins to some extent.

GV Prasad: Yes, you are right.

Sukhvinder Singh: This is regarding the European finishing dosage business, if we exclude the acquisition in Germany it comes down to around 42.6 crores in Q1, and now I just want to know what is the percentage of sales coming from omeprazole and amlodipine?

VS Vasudevan: In the UK generic markets significant revenues are from there, both these products which you mentioned.

Nikhil: Yeah Sukhvinder, I do not have the details right now but we can mail the information across to you.

Sukhvinder Singh: And is the pricing pressure, what are further pressures likely in these products?

GV Prasad: We will have to wait and watch for the UK market Sukhvinder

Sukhvinder Singh: One question regarding this CPS business, we just want to have a brief outlook on what is the customer base and the growth rate in the number of customers?

GV Prasad: We cannot really give you details about that because they are a very large number of customers for developmental quantities. We have a few major customers for the matured API.

Pawan: Yeah, first congratulations to the Dr. Reddy's team for a very good set of numbers and hearty congratulations to Mr. Vasudevan and Mr. Chakraborty on the new role. I have a few questions in fact first is to Mr. Vasudevan if you could give us an outlook for the tax rate for the full year.

VS Vasudevan: First thank you Pawan on behalf of Saumen and myself. The effective tax rate possibly could be in the range of 12 to 15% and it will largely depend on the authorized generics revenues and income.

Pawan: So it will be between 12 to 15% tax rate on entire profit.

VS Vasudevan: That's right

Pawan: Thank you, then I have I mean this is, okay, I will just continue with my questions for you, SG&A in this quarter is extremely high, I mean you know I sure understand that you have Germany but does it include any one time or anything like that or this will be sustainable rate?

VS Vasudevan: There is no one time here, expect for the incoming acquisitions we have not seen exceptional items in this. Compared to the revenue growth, the increase in SG&A has not been significant.

Pawan: Okay, okay, and if I look at your staff cost, it has actually doubled to about 33 million dollars this quarter, so should I assume that for the full year it will be about 120 or 130 million dollars of staff cost?

VS Vasudevan: Normally staff cost you can multiply that way unless there are increases, we do not see much, but these numbers include also the incoming acquisition.

Pawan: Absolutely yeah sure, then few more actually, selling cost, okay, under Indian GAAP your stock shelf adjustments that you have done in Germany, it would go under which head, it is selling cost or other expenses? It would not be under material, right?

VS Vasudevan: I think Pawan let me come back to you but we are focusing on the US GAAP. I would suggest that you focus on the US GAAP. The shelf stock gets adjusted under the sales items and the gross margins are under stated to that much extent.

Pawan: Than my question is that you know if I look at, you know, expenses have really, selling expenses, okay you would say that it is because of the incoming acquisition. Fine, Satish, my last few questions for you is, there seemed extreme strong growth here in branded formulations, 29% for this quarter, would it be fair to assume, you know, a similar growth rate for the balance year?

Satish Reddy: See normally we also have some kind of a sequential pattern Pawan, you know, it is obviously the first quarter and you know the leading all the way up to the third quarter generally tends to be pretty good in terms of sustaining both kind of growth rates, again you have to see that you know this is across most of the markets you know not just India and Russia but even the other markets also, so except for the last quarter there you would typically see that you know the sales growth is somewhat lower on a sequential base, otherwise normally you will see it will sustain.

Pawan: Because it is I mean anyway the YOY comparison, so you know the base is low.

Satish Reddy: Okay, if you are asking on year-on-year, yes, you will see the growth.

Pawan: That's great, and finally just one last question, gross margins, you know what I have Vasu this is for you again, you know whatever numbers you gave and I just made the adjusting figures for generics, I mean can I just ask you guys one thing authorized generic is it single digit margin or is it double digit?

GV Prasad: No we cannot comment on that.

Pawan: Okay, fine and very best wishes for the future.

Jesal Shah: Yes good evening everybody and thanks for taking my question. I just have two or three issues; one is, if you look at the debt burden for the company, it is almost about 450 million dollars, net debt. The question here is, is this the kind of levels that the management would be comfortable with or would you imagine that there is some need to kind of look at some equity raising over the next 12-18 months?

VS Vasudevan: Jesal at this point of time we are quite comfortable with the situation, we expect the debt equity ratio is to be 1:1 at the end of the year and that is the fair number, and we will be continuing with this sort of numbers.

Jesal Shah: Great, my second question is actually on betapharm, if you can give us some idea about on a year-on-year basis what kind of growth have you seen at revenue level and in terms of basically EBITDA margins what kind of movement have you seen?

VS Vasudevan: In this quarter it has been unusual as far as the quarter is concerned so there has not been any revenue growth, and as far as the EBITDA margin, it is almost neutral.

Jesal Shah: No, meaning the EBITDA margin is flat YOY?

VS Vasudevan: No it is actually I mean there is no EBITDA as far as the business is concerned, so there is neither profit nor loss at EBITDA level.

Jesal Shah: Thanks, and versus last year first quarter I guess there would have been about 15 to 20% EBITDA margin?

VS Vasudevan: Yes that is a fair assumption but we are not comparing the two quarters.

Jesal Shah: Right, but you said the revenue line is basically flat YOY?

VS Vasudevan: I do not think I said it is flat YOY, I said it’s impacted because of the various one time expenses.

Jesal Shah: So actually it is lower on year-on-year basis, I guess.

VS Vasudevan: Yes that’s right.

Jesal Shah: Okay, thank you so much.

Ranjit Kapadia: Good evening and congratulations to Dr. Reddy’s team for the good set of numbers. My question pertains to ondansetron, what do you feel the probable number of players and how you see the market?

GV Prasad: During the exclusivity period it will be the brand and also an authorized generic, I think at a minimal.

Ranjit Kapadia: And after the exclusivity sir?

GV Prasad: I think there will be multiple players, there are several filers, and there would be five or six players.

Ranjit Kapadia: Five to six players, okay. Thank you sir, thank you very much and all the best.

Nikhil: Pratibha, we will take one last question.

Rahul Sharma: Mr. VS Vasudevan, just wanted some clarity on amortization expenses, we have incurred 388 million and 311 million in intangibles to Betapharm and acquisition in Mexico. We had earlier given guidance of around 13 million, are we sticking on to 13 million?

VS Vasudevan: We are sticking on to the 13 million net of taxes.

Rahul Sharma: Okay, on gross basis how much would it be?

VS Vasudevan: The gross basis it could be around 22 million, we have to multiply this 9 million dollars and at dollar level it will be about 36 million.

Rahul Sharma: 36 million for the full year?

VS Vasudevan: Yeah dollars, yes.

Rahul Sharma: Okay that we have written off over the four quarters?

VS Vasudevan: That's right.

Rahul Sharma: Okay sir, thank you.

Nikhil Shah

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Thank you Pratibha, we would like to thank all of 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 e-mail. Thank you.