



**Dr. Reddy's Laboratories Limited**  
**Q1 FY 2015**  
**Earnings Call Transcript**

## **Kedar Upadhye**

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Very good morning and good evening to all of you and thank you for joining us today for Dr. Reddy's Earnings Call for the First Quarter of fiscal 2015. Earlier during the day, we have released our results and the same are also posted on our website. We are conducting a live webcast of this call and a transcript shall be available on our website soon.

Just a reminder, the discussion and analysis in this call will be based on IFRS consolidated financial statements.

To discuss the "Business Performance and Outlook" we have the leadership team of Dr. Reddy's comprising, Satish Reddy – our Chairman; Saumen Chakraborty – our Chief Financial Officer; Abhijit Mukherjee – our Chief Operating Officer; and the Investor Relations Team.

Please note that today's call is copyrighted material of Dr. Reddy's and cannot be rebroadcasted or attributed in press or media outlet without the company's expressed written consent.

Before 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. After the end of the call, in case any additional clarifications are required, please feel free to get in touch with the Investor Relations team.

Now, I would like to turn the call over to Mr. Saumen Chakraborty, our CFO.

## Saumen Chakraborty

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Thank you, Kedar. Greetings to everyone!

Let me begin with the key financial highlights: For this section, all the amounts are translated to US dollars at a convenience translation rate of Rs.60.06, which is the rate as on 30<sup>th</sup> June 2014.

Consolidated revenues for the quarter were at Rs. 3,518 crores or \$586 million. We registered year-on-year growth of 24%. Revenues from our Global Generics segment were \$483 million and grew by 32% year-on-year. This growth was well-diversified across the geographies. While US generics got benefited by continued limited competition for the last year's launches, there was sustained momentum in Emerging Market territories and India formulations as well. Revenues from our PSAI segment were \$92 million and declined by 6% year-on-year.

Consolidated gross profit margin for the quarter was 59.3% vs 52.8% in the corresponding quarter of the previous year. Corresponding values for Global Generics and PSAI were at 66.5% and 22.3% respectively. As we have highlighted earlier, this margin expansion is due to improved product portfolio and a favorable currency situation compared to the same quarter last year.

SG&A expenses including amortization for the year were at \$178 million, an increase by 21% year-on-year. However, SG&A as a percentage to sales decreased by 55 basis point. The cost increase in absolute term is largely due to the depreciation of the rupee against multiple currencies, annual increment, additional manpower deployment in the past 12 months and other sales and marketing spends for events specific to this quarter.

R&D expenses for the quarter were at \$65 million, representing 11% to revenues vs 8.5% in the corresponding quarter of the previous year. As also mentioned earlier the increase in R&D spend during the quarter is in line with our planned scale up in R&D activities

EBITDA for the quarter stands at \$148 million, 25% to the revenues and grew by 56% over the previous year.

Tax rate for the quarter is 21.5%. Effective tax rate for the year is expected to be in the similar range.

Key balance sheet highlights are as follows:

July 30, 2014

Our working capital balance increased by \$71 million over the previous quarter, and is largely in line with our expectations. Capital expenditure for the quarter was at \$36 million. Our net debt-to-equity ratio has significantly improved to 0.09.

Foreign currency cash flow hedges for the next 18 months in the form of derivatives and loans are approximately at \$470 million, largely hedged around Rs.59 to Rs.63 to a dollar. In addition, we have balance sheet hedges of \$460 million.

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

## **Abhijit Mukherjee**

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Thank you, Saumen. Greetings to everybody and I extend a warm welcome to you on this earnings conference call.

This has been a good start to the year with our performance, both in terms of sales growth and margin expansion, playing out as per our expectations. During the past 12 months, we proceeded towards building a strong injectable franchise in the US. The key set of products being Decitabine, Azacitadine and Zoledronic acid. We have demonstrated our ability to build shares in this space and this has proven to be a source of sustainable value proposition for us. Our emerging market geographies and India business also contributed positively despite challenging macro-economic environment. For the PSAI business, the challenge on the external front continued in few pockets. We saw revenue stability and relatively better margin profile for our API portfolio.

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

Revenues from North America Generics for the quarter were at \$ 274 million and grew by a healthy 43% on Y-o-Y basis and 12% on sequential basis. As mentioned earlier, contribution from the injectable products sustained through the quarter as there was no noticeable competitive entry. You would have also noticed that we have increased market share for some of our key products namely Metoprolol and Ziprasidone. Over the past 12 months' period, we have improved on the generics rank (value) to 8<sup>th</sup>, up 3 places, as per IMS. While new launches are not fully factored in as yet in our revenue numbers, the expected contribution from these launches may not completely offset the impact of possible competition, we expect to see starting this quarter in some of our limited competition categories.

Revenue from our India business were at Rs.400 crores and recorded a 15% year-on-year growth. This is our second successive quarter of growth above the industry level. We continue to see healthy volume expansion in our focused brands, some of which are under NLEM. We are also seeing robust prescription growth. We have selectively increased field force for some therapies to increase our depth and coverage. The team continues to look out for differentiated products to enrich portfolio mix and address existing unmet medical needs.

On the emerging market front, Russia revenues were at \$70 million for the quarter and grew by 18% in local currency terms. We continue to perform better than the market both in volumes and value terms. OTC comprises about 37% of total revenue and registered 22% growth over previous year. As per the May IMS Report we are the third fastest growing OTC Company in the top 25 list. Ex-Russia, the Emerging Market territories grew by 25 % year-on-year majorly contributed by Venezuela. There are always headwinds surrounding various macro factors such as currency and political situation in these markets. However, we remain quite optimistic of the opportunity set available in these markets on the back of good portfolio, increased serviceability, OTC business potential and headroom to grow our Rx market shares.

Our PSAI business declined by 6% year-on-year due to continued subdued demand and some deferment of customer launch plans. API is looking better with improvement in gross margins and higher developmental sales. Also, there is a gradual improvement in our order book over the last few quarters and its value shall be realized in the coming quarters. CPS performance fell short of expectation in this quarter.

As mentioned earlier, PSAI provides major competitive strength towards our generic business, especially considering increasing generic pipeline launches in the limited competition space.

With this, I open the floor for Q&A

- Prakash Agarwal** Wanted to get a sense on the US dollar revenues. Two things you mentioned, on the sustained run rate on the Injectable portfolio. What is the sense on its sustainability? Are we expecting some competition to build now or is there a bunching up that has happened like we saw a couple of quarters back?
- Abhijit Mukherjee** It has been a good run from the time we launched (injectable assets). There are 3 or 4 products which are in the limited competition space. We are hearing about one competitor in one of the assets - not yet in the market. Whether there will be an onslaught of a number of competitors, we do not think so as yet. However overall in generic products, we expect gradual erosion as more people come in.
- Prakash Agarwal** On the other piece in the US, you talk about market share gains especially Toprol and Geodon, which is a function of US FDA issues with a couple of peers. What is the comfort that we get that these are again sustainable?
- Abhijit Mukherjee** We will see how it pans out. We do not have visibility of how others are placed. We have not heard of anything as yet. Toprol is not likely to see a lot, it's a large product, we do not have visibility at the moment.
- Prakash Agarwal** Clubbing the two with your earlier guidance of muted growth this year, you have seen strong growth this quarter, how should we expect the remaining year to pan?
- Abhijit Mukherjee** Muted growth vis-à-vis the 30% kind of growth which we had seen for the full year. Q1 has been great, but we are cautiously optimistic and we leave it at that.
- Karthik Mehta** Wanted to understand what ballpark R&D number should one assume? It is increasing and we have almost about 11%, but is there any number? The second one is, is there any thought, Prasad, you would have on the recent approval of a biosimilar which was received by Sandoz on 28th?
- Saumen Chakraborty** On a full year basis, we expect R&D to be in between 10% and 11% of sales.

- Karthik Mehta** In terms of the first approval of biosimilar by the FDA which was filed, is there any thought that you have for your investments and do you feel that there is more visibility in terms of the overall pipeline that we have here?
- Abhijit Mukherjee** In the biologic segment the journey continues. We do not have an immediate update on this. You may be aware that we are in a deal with Merck Serono. There are no near-term expectations.
- Girish Bakhru** In your press release, when you say the FTF are eight from last quarter, it has come down, one, is that Cymbalta launch that you are referring to?
- Kedar Upadhye** We will come back to you. Possibly, yes.
- Girish Bakhru** Have you launched Paricalcitol in the US and how interesting is this market given that there are only three players likely?
- Abhijit Mukherjee** Yes, we have launched Paricalcitol. We are already in the market and we have got some share, but it is not a large product as you know and Teva was already there, Banner and Zydus followed. On the size of the product, it is not such a significant revenue stream for us.
- Girish Bakhru** On Reclast, any update post the Markman hearing, are there players waiting to launch?
- Abhijit Mukherjee** Not heard anything new.
- Neha Manpuria** My question is on the emerging market growth. If I look at the Russia and CIS business, given how strong Russia was, was there a concern in Ukraine or CIS growth because of the ongoing geopolitical situation there?
- Abhijit Mukherjee** In Ukraine, we have already taken a hit this quarter. The geopolitical situation is indeed affecting the geography's sales and it is a significant part of our CIS geographies. In Russia we are doing quite well. We are not just doing well in totality we are also doing relatively very well compared to the market. Both in OTC and Rx we have gained ranks.

Of course, there are some concerns. Ruble has weakened vis-à-vis last year, there is some impact of that, interest rates have gone up to a certain extent, but for us so far so good actually.

**Neha Manpuria**

My second question is on PSAI. We have mentioned that it is improving sequentially and we should see improvement. This is similar to the commentary that we made last year, despite that we have seen some quarter-on-quarter decline in this business. Should we still assume that we will take a few more quarters before we actually see improvement in this business or should we start expecting growth at least bottoming out of the revenue decline that we have been seeing in the last few quarters?

**Abhijit Mukherjee**

For API we already see some improvement. The way one looks at factors which indicate some return of health is our seedings and lock-ins, which have started going up. Filings are healthy this quarter. So, the API side is getting better. This quarter was particularly affected by CPS. There is some deferment of sales and there are some areas where our delivery got a little delayed. From second quarter we will pick up. Would that lead to a situation where we are in the pink of health? Probably not. But certainly, the worst seems to be slowly getting behind us.

**Neha Manpuria**

That being said, sir should we expect margins to improve, 22% was quite a good margin even we did 20% last year, is there more opportunity for margin improvement as we go through the next year?

**Saumen Chakraborty**

If the revenue improves that has its impact also in the margin a bit. So, probably, we can expect some improvement in margin in this year.

**Surya Patra**

On the Biosimilar front, though we have been seeing a steady growth in the revenues, geographic penetration is very limited as of now, though we launched Sofradex long back. Are you are seeing significant regulatory issues in getting the product approved in various markets or what is the problem?

**Abhijit Mukherjee**

In biosimilars, the regulatory approach by the countries vary even in emerging markets. There are various approaches to regulatory approval. We are looking at quite a few markets, but some markets are also part of the deal. We will not

be able to elaborate too much at this juncture on exactly how we are placed, but we are continuing to engage with various agencies to see our approvals.

**Surya Patra**

What is the timeline that you are seeing in getting an approval in an emerging market? For MAbs I am not asking this question, that is partnered with Merck and that will take its own time, but at least the product that has already been launched in the various emerging markets or in India, for those, in how long would you be seeing better penetration?

**Abhijit Mukherjee**

Even for the emerging markets quite a few markets are clubbed with the Merck deal and we will not go beyond that. However what we can clarify is that for some of the markets where we are already operating in we are free to launch, some we have already launched and the big one, as we have already messaged is our file, is in Russia which was filed some time back. We are tracking how that is moving. It is not like small molecules, where it is a predictable journey. But that is probably the next important milestone in biologics for the emerging markets. The rest of it country-by-country, is partly covered in the deal. So, we will not be able to cover the meaningful ones, there could be small ones here and there. The markets where we have launched is a million dollar product.

**Surya Patra**

OctoPlus, since acquisition is more than a year now. Any progress or any contribution that you have gained out of the OctoPlus side since we have been saying that this is one of the key assets so far as the injectable product or the complex products development is concerned?

**Abhijit Mukherjee**

Currently, the acquisition is focused on 3 complex injectables, all are in various stages of development. All these three assets would need PK studies. So far the development journey is moving in the right direction. We have our internal guidelines. We are tracking it quarter-by-quarter and we will message to the market as soon as we come closer to approval or near the time.

- Surya Patra** Could you give us some update on the injectables product that are there in the pipeline? For example, you have Propofol. Also have you commissioned your Srikakulam injectable plant, what is the update on that?
- Abhijit Mukherjee** The oncology injectable plant was commissioned long back, it is already commercial both on injectables as well as oncology oral solid. On the plain injectable plant, commissioning has started but then the filing will start and then approval, etc. On the pipeline, there are products which already we are in litigation, you can get that data, but specifically, we will not comment on the pipeline. Quite a few products in injectables, we filed two in this quarter as well. So, you have to wait till we launch.
- Surya Patra** How many injectables totally do u have in the pipeline?
- Kedar Upadhye** Surya, we will not comment on that now. Can you come back in the queue later please?
- Sameer Baisiwala** A quick question on Copaxone. Can you update us how the file is progressing and clarify if you have filed this from your facility or from a third-party?
- Abhijit Mukherjee** Firstly on the progress of the file, some interaction has started and nothing negative so far. As I mentioned last time, we feel good about the quality of the filing. We will just leave it with that. About specifics of the supply chain, we will not comment on. As you know this asset is largely governed by characterization of the API and that is all internal in any case.
- Sameer Baisiwala** On Nexium, is it possible to clarify? Your launch would be on 181<sup>st</sup>-day post-FTF and this is no matter when FTF launches, would that be the correct understanding?
- Abhijit Mukherjee** As per public domain information, no one has tentative approvals. Having said - this makes us feel okay about it and actually whether we would be 181, etc., is a question of approval going through. However no bad news on this front from our side as of now and without TA we cannot comment further on that.

- Sameer Baisiwala**      What I was saying sir, at the earliest no matter when the FTF comes, it would be after 181 days thereafter?
- Abhijit Mukherjee**      Yes, that is true, we are fully backward integrated.
- Sameer Baisiwala**      In your recent regulatory filings you have indicated two innovation-based products. I read them as NDDS products which are in between Phase-II and Phase-III clinical trials. Is it possible to indicate when they would be entering into Phase-III?
- Abhijit Mukherjee**      As we speak, some of it is just going in and we stand by what was messaged earlier. In a year's time from now, we should see a couple of filings in place.
- Sonal Gupta**              Further on the API thing, your US API sales or PSAI sales have almost collapsed this quarter. What is happening in specific there? Overall, looking at the decline in the API, of the business that you lost how much of it would you attribute to loss of market share versus decline in pricing, if you could give some sort of a sense on that?
- Abhijit Mukherjee**      There is of course erosion in B2B businesses but largely the new products did not click very well in the last year which is again a factor of filings a little earlier than that. Having said that, as I just said, that the renewed focus from management went in for a few quarters now which saw culminated into healthy DMF filings in the Q1 and we expect this to continue in the rest of the year. So, that is the key part of the business. The business is governed by your seedings and lock-ins and that will only happen when you successfully file DMF ahead of others with a hook which makes us a good partner. Having said that, certainly this is an important part of the business in external sales, but this is an area of high competitive advantage for the company. We will try to see how best we can utilize the strength to create end-to-end value as well.
- Sonal Gupta**              Could you give a split of the PSAI in terms of how much is Custom Synthesis versus API?
- Kedar Upadhye**              Sonal, usually it is 70-30 and 75-25. Quarter-to-quarter, it may vary.

- Sonal Gupta** How are you seeing the overall pricing trends on the generic side in the US and has there been any impact for you of the channel consolidation or given that most of your large products are limited competition, you have not seen any impact ? Could you just comment on how you are seeing things?
- Abhijit Mukherjee** We have seen erosion in certain products. In few cases we have given up. Quite a few places we have retained, but at a substantial cost. The US market is also governed by factors of some price increases, some share increases and some erosions. The sum total of this three governs the base business and the launches add to the growth. Broadly, between these three factors which I mentioned, we have been able to keep it in somewhat neutral base.
- Sonal Gupta** You have been able to offset the price erosion with market share and price increases in some other products?
- Abhijit Mukherjee** Probably, yes.
- Sonal Gupta** How is Immitrix Stat dose doing for you? You launched this product sometime back. Where are you in terms of market share?
- Abhijit Mukherjee** We locked-in our market share. However the number of units is not very large. What happens in such cases when you are a follow-on generic, even if you have locked in share, to displace in the shelf it takes much longer than our high volume assets. So, this is what is happening in this case. We will truly see from here on increase in IMS market share to our locked-in market share.
- Sonal Gupta** Could you give an indication as to where would you be in that sense?
- Abhijit Mukherjee** Yes, we are approx. 50% to 60% of our locked in shares. IMS is fully representative and if you go by the May 2014 one it is about 5%. The actual share is certainly much more than that actually.
- Chirag Dagli** In your initial comment you suggested that share optimization has not yet happened in the products launched last year. You also mentioned that this year price erosion could actually offset some of that upside, but thereafter, on

the Injectable side, you are mentioning only one incremental player in one of the products. Where is it that you are seeing more price erosion to offset this?

**Abhijit Mukherjee** Same products. Destiny has been kind in the first quarter, that does not mean to say that we will continue to see no one coming in. We should be watching this closely and as I said, one more we are hearing of. Let us see how it pans out.

**Chirag Dagli** Your comment was suggesting price erosion only in that product, right, or are there other products where you are seeing substantial price erosion?

**Abhijit Mukherjee** The last question was on consolidation leading to price erosion. Those are mostly in oral solids.

**Chirag Dagli** No-no, in your initial comment you did suggest that there could be some price erosion in the business, which could offset the upside from market share gain. So, I was just trying to understand beyond the injectable one product, is there any other largish product, where you are expecting substantial kind of a price decline?

**Abhijit Mukherjee** The larger impact would be in injectables, the other ones is part of the business, it will always be there, a bit here and there. We do not expect a very large impact in the other, but difficult to say. Injectables would be the biggest hit, with more people coming.

**Chirag Dagli** On the PSAI business as a whole. This is a fairly large business with the slower growth that we are witnessing over the past four quarters probably even a decline. Has this got anything to do with the base per se that we are very large and now incremental products are not there, etc.? Is there an optimal base that you have in mind around which this peaks out? How should we think about growth opportunity within this piece?

**Abhijit Mukherjee** PSAI is 16% to 18% of the total company revenue. API, it is reasonably a big space. As I mentioned, the reason for not having grown here is largely not having enough products filed and not enough customers. Management focus is going in and we are rectifying that. There will be growth. It may not impact

the overall company trajectory but this is a major competitive advantage and we will try to see how we can channelize more energy to derive greater value from this group.

**Chirag Dagli**

But clearly, because this is a large business now, does not mean that the growth opportunity is much lesser now, that should not be the take away certainly, there are opportunities that you are seeing?

**Abhijit Mukherjee**

That is fine.

**Aditya Khemka:**

One question on Copaxone. The approval it seems for your competitors who are supposed to get approval in this current calendar year were not able to get that approval. Then Teva filed the citizen's petition where they have made a strong case or made a case for clinical trials that FDA should ask for? So, are we as a precautionary measure or as a preemptive measure conducting clinical trials for Copaxone to see the gene expression across the entire gene or are we sticking the gene expression on the selective genes that FDA had asked for earlier?

**Abhijit Mukherjee**

That is a too detailed question. To answer in more general terms, you mentioned two things, (a) you mentioned citizen petition and (b) you mentioned whether a full blown clinical trial would be warranted. In both cases, we think it may (CT) not be necessary. This is based on how the citizens petitions have been turned now by FDA and on clinical trial, certainly not, because so far the engagement is moving on. I am sure for other companies as well. Considering that, those two are negative. Beyond that, details of gene expressions and other things, we would not like to comment on.

**Aditya Khemka**

A book keeping question on your FY 2014 numbers, your creditor days had fallen I think to much lower levels as they were the last year. Anything triggering that lower level of creditors or do we expect to go back to normal levels or is this the new normal?

**Saumen Chakraborty**

Whatever is there, that is fairly representative of our current program.

- Rahul Sharma** On a QoQ basis, we are looking at improvement in gross margins. What can you attribute this to; is it due to a further ramp-up in some injectables? Can you give some clarity on that?
- Saumen Chakraborty** Gross margin improves because of multiple reasons; one is the business mix. Higher the percentage of Global Generic compared to PSAI, gross margin improves. Of course, if there is a depreciation in rupee vs dollar, then also the gross margins improve. Of course, on the throughput of product, If the sustainability of the pricing is high and the percentage of revenue from those products are higher, then those products from high throughput buckets are yielding more, then also gross margin increases.
- Rahul Sharma** On QoQ is PSAI going down the sole reason that has been why the margins have increased or is it that you have taken some price increases in certain products or some further market share strengthening has happened?
- Abhijit Mukherjee** Last quarter, we mentioned for the institutional sales of injectables, January is a weak month. Normally, institutional sales are more in December, and January becomes unusually weak. So, that factor was not there in this particular quarter to a certain extent certainly this has helped. Then there are other factors that Saumen mentioned; PSAI as a share going down and of course, a few other things which we were mentioning as well. Broadly, injectables holding and the impact of a full quarter or full blown sales.
- Rahul Sharma** You are constantly improving your gross margins. Are you seeing a much higher base because last year, we did 57.4% because of these opportunities coming in, so are you seeing a higher base going ahead, will you be able to sustain these levels?
- Saumen Chakraborty** We are not giving any financial guidance. We will not specifically comment on that but all that we are saying that we are spending more on R&D, spending quite a good amount on CAPEX, but at the same time we are improving our free cash flow, which is evident from the numbers that we have been putting up.

- Rahul Sharma** How many niche opportunities are you expected to launch in the current year and what is the injectable pipeline which is there, which has been filed?
- Abhijit Mukherjee** It is difficult to talk about those. This particular year as we already mentioned in the beginning was expectedly a little more lukewarm. The first quarter has gone better than expectation. Let us see how it pans out. The launches sometimes there could be one or two which could be good but till we hit the market and till we are able to see where and how the competition, it is difficult to comment on those. Overall, if you see in the mid-term this year to next year, we stay optimistic on North America.
- Ranjit Kapadia** My question relates to fondaparinux and Cymbalta. Can give the latest update for these two products in the US market?
- Abhijit Mukherjee** Fonda is changing hands. Mylan has got the rights which means the current AG would slowly transition naturally. What that would mean for us, we have no idea, but we are static with the market share, revenues, etc., and probably it will be in the same direction. Cymbalta is a story which is extremely commoditized. It was great run for those who have been in the first wave, unfortunate for us. We have also launched along with a few other people. Not much is left for anyone in Cymbalta.
- Ranjit Kapadia** What was our market share in Cymbalta can you quantify?
- Abhijit Mukherjee** We are still continuing to thrive, but it is a tough upward slope actually in terms of getting any market share. There isn't any meaningful value and we are backward integrated on this.
- Saumen Chakraborty** We have already 9 players in that market now.
- Nimish Mehta** You mentioned in the last quarter that you were expecting some niche launches either in the first quarter or the second quarter for the year. Any update on that?
- Abhijit Mukherjee** We did not mention any niche launches. We mentioned that there are a few launches, we launched 4 products. All turned out to be multiple player –

paricalcitol, eszopiclone etc. Those two were okay, took some time for market share increase but none of them in terms of high impact. To a certain extent Caduet has done well but others are really penny launches.

**Nimish Mehta** You do not expect any more low competition launches this year, is that a correct statement?

**Abhijit Mukherjee** May not be able to comment on that in specifics. We have some thoughts about that but would not be able to share those.

**Nimish Mehta** I missed on your Nexium clarification. You mentioned that you will be able to launch post the 180-day exclusivity regardless of the fact that the FTF holder launches, is that the correct understanding?

**Abhijit Mukherjee** I did not say that we will launch immediately after exclusivity, I said that no one has got a TA, which makes us feel okay and we are backward integrated. Let us see when Ranbaxy launches. We would try to be in the game.

**Nimish Mehta** On OctoPlus, a couple of quarters back you guided for a launch in the end of FY15 one product from OctoPlus basket. So, is that something that we continue to hold on to?

**Abhijit Mukherjee** Not end of FY15.

**Kedar Upadhye** We said probably we can file, not launch.

**Nimish Mehta** A last question on Russia sales outlook. You see that to be growing? I am talking about Russia and other countries in CIS as well.

**Abhijit Mukherjee** Current going is very good, started a quarter well as well. Having said that, all of us are reading the tragic things which have happened in the last few weeks and how those things would pan out, we will have to watch closely but vis-à-vis competition in the market we are doing very well.

**Nimish Mehta** This quarter growth was a single-digit growth of 8%, right, for Russia?

**Kedar Upadhye** Russia, we said 18% in local currency, at the EM level we have about 8%.

**Saumen Chakraborty** In Russia, our OTC is now 37% of total business.

**Hitesh Mahida** Wanted your view on the domestic market. Now, with government continuously bringing more and more products under the NLEM, does that hamper our growth plans for the market, considering that this has been the second straight quarter wherein we have posted double-digit growth?

**Abhijit Mukherjee** For the last set of products under the NLEM the impact gets over actually in the coming month in August. You are probably referring to next set of products. At the moment we would not comment on it. It is being debated, it is being discussed in the court of law as well. So we leave it at that. Overall impact from that for us is somewhat lower than the last one but we would not comment on this since now this is a question whether this is the right way things have gone.

**Hitesh Mahida** What will be your outlook in terms of growth for the Domestic Formulations business?

**Abhijit Mukherjee** We remain quite bullish, we said we will slowly move up. The first three quarters of last year if you recall we were struggling, fourth quarter we posted good growth, this quarter is okay. Here onwards it will be northwards of what we have posted. All indicators typically in branded business are looking good, whether it is mega brands, whether it is prescription growth, whether it is accretion in the front end or whether it is revenue from the launches they are looking good. We feel optimistic about this market.

**Hitesh Mahida** I just wanted to know your views on inorganic opportunities. Going ahead, will we see acquisitions from Dr. Reddy's to acquire technologies or to acquire skills like some of our peers?

**Saumen Chakraborty** At any point of time, we evaluate whatever opportunities come our way but we have a very stringent criteria for acquisitions. We are not going to focus much for any top line accretive acquisition. Only when we find an opportunity which can give us an EPS accretion, then only we will go forward. For areas where we need to fill the gap in terms of capability we will definitely focus on and do it.

- Prakash Agarwal** Wanted to get some sense on the Derma portfolio that we are developing through Promius. When should we start seeing more traction in that business in terms of revenue generation and what is our outlook on the recent price hikes taken by a few derma players?
- Abhijit Mukherjee** As I mentioned a year from now we should probably see towards the end of the period two NDAs filed in US. The current price increases in Derma product are largely in the space of generic products led by a few companies. That is a different ball game. At the moment, we have very few products which is proprietary and whatever the way proprietary for our function, it is in the same direction, nothing much to report there but on the filing side, NDAs should start within a year from now and thereafter a year to approval.
- Prakash Agarwal** Again two years to three years away basically, in terms of monetizing?
- Abhijit Mukherjee** Probably.
- Prakash Agarwal** Any update on the IND filings that we did in the Biosimilar space in the Europe? Are we adding more or are there plans within this year, any update you could give on that?
- Abhijit Mukherjee** IND is a proposal to proceed in the clinic. It is the plan which gets validated by FDA. Two of our products got approved, the development is in progress, which is clinical and it takes time for those. For the regulated markets certainly going to be later than our proprietary products, that should kick in earlier.
- Prakash Agarwal** So, are there plans to add in the near term?
- Abhijit Mukherjee** Right now, our hands are full. There are quite a few assets actually. A few in the Merck deal, a few outside the Merck deal, which we are anyway progressing with the filing opportunities in various markets, etc., Of course, there are other products being developed but nothing to report at the moment.

**Sameer Baisiwala** As US business keeps getting bigger, billion and then a billion and a half, the growth could be challenging to achieve in US. Therefore how would u reduce dependency on the US?

**Abhijit Mukherjee** So one more emerging market certainly we would be the organic entry it should happen this financial year, but organic entry in branded market takes its own time. That is for sure one, could be one or two, but at least one. You asked about South Africa, it is doing well, but not as good as Venezuela; Venezuela has been really-really rewarding this quarter, double sales, that has been extremely profitable for us. we have taken some decision in keeping supply chain available for six months for this very turbulent volatile market and it paid off well in terms of some shortage of products in the market and branded products when they go short, it may not be a one-time buy, because patients are getting used to our brands and by the way we have CNS in Venezuela as well. That has been the real star of this quarter. Other markets, usual story, we are bullish, it is growing and we will keep investing in those markets. China, we have a partnership, we are also outlicensing some of our assets; one asset has got into successful outlicensing and it is turning out to be interesting in terms of revenue accreditation. Australia, it is a generic market we launched two or three products in the last three-four months, but it is not a big market. Overall since we are located in specific geographies we are focused on the portfolio execution and supply chain.

**Satish Reddy** Sameer, just to add, the idea will not be to reduce the dependence from the US, the idea will be to look at opportunities available in the other markets and that is what will keep us here.

**Nitin Agarwal** Saumen, when you look at SG&A expenses, they have remained at the same levels despite the growth in the revenues in the last couple of years. We have not been able to bring them down below 24-25%. When you look at the expenses, is it possible for us to optimize it beyond those levels or 24%-25% is where they are going to stay on a sustained basis?

**Saumen Chakraborty** No, our SG&A as a percentage of sales is higher than 30%. If it comes down to 24-25% that will be a fantastic improvement for us, which could be a very

difficult target to get but we must try our best to improve this in a productivity as far as possible. In near-term, I cannot envisage that we will be getting to 25% return. We have in this quarter improved the productivity by 55 basis points. So, we like to improve our productivity. I will just leave it at that.

**Nitin Agarwal**

On the US business, so you have talked about not having too much clarity in the near term, but if we take a two-year to three-year view, or probably even longer view, what kind of sustainable growth can one expect in the US market for us on a medium to long term view?

**Saumen Chakraborty**

We are not giving any financial guidance but all that we can say is that the kind of investment we are making on R&D and the kind of filings that we are doing, more so in a complex generic space including the quality of filings even what we have done in this quarter, we have a very good prospect in it for future years.

**Abhijit Mukherjee**

Mid-teens should be there at least.

**Kedar Upadhye:**

Thank you, all for joining Dr. Reddy's senior management for our Q1FY15 earnings call. In case of any additional clarifications please feel free to get in touch with investor relations team. Thank you and good day.