Dr. Reddy's Laboratories Limited

Fourth Quarter Fiscal 2010

May 6, 2010

Moderator

Ladies and gentlemen, good morning and good evening. This is Rochelle, the Chorus Call Conference Operator. Welcome to the Dr. Reddy's Q4FY10 earnings conference call. As a reminder for the duration of this presentation, all participant lines are in the listen-only mode and this conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call they may signal an operator by pressing * and then 0 on their touchtone telephones. At this time I would like to hand the proceedings over to Mr. Kedar Upadhye of Dr. Reddy's. Thank you and over to you Mr. Upadhye.

Kedar Upadhye

Thank you Rochelle. Good morning and good evening to all the participants and welcome to Dr. Reddy's earnings conference call for the fourth quarter and full year ended March 31st, 2010. 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 home page under the Quick Link 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. Additionally, the transcript of this call will be made available on our website. Please note that all discussions and comparisons during the call will be based on IFRS consolidated financials and IR Desk will be available to answer any queries relating to the Indian GAAP financials immediately after the conclusion. To discuss the results and outlook, we have on the call today GV Prasad, our Chief Executive Officer, Satish Reddy, our Chief Operating Officer and Umang Vohra, 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 Kedar. I welcome you all on this call today. I will begin by giving you an update on our guidance for fiscal 2010.

I feel we have done well during fiscal 2010 despite some very challenging situations we faced during the course of the year. We guided for a 10% growth of revenue and a RoCE of mid to high teens. This was on the back of a high revenue growth of 39% in fiscal 2009 which had the added benefit of high-margin sales of sumatriptan in the US. The increasing pace of the shift to a tender based business model in Germany, the product recall related temporary slowdown in third quarter in North America and a subdued growth in our PSAI business were some of the reasons for us for not having achieved our revenue guidance. However, we have been able to demonstrate a continuing trend of profitable growth through sustained focus on identified markets and control over our operating costs.

Despite a modest revenue growth, we have met our RoCE guidance with an adjusted RoCE of 17%. While in the previous year, a significant contribution to our profitability was from Sumatriptan, the profitability of the current year is largely shaped by growth in our base business, a better product mix, and the benefit of scale and operating leverage.

In order to adapt to the changing dynamics of our environment, we have undertaken several initiatives this year. Some of these are as follows.

Firstly, the restructuring of betapharm's workforce to align to the new market reality was inevitable. We reduced our workforce by more than 200 people in this year in two separate social plans implemented in quarter 1 as well as quarter 4. We also continue to optimize our global infrastructure and resources. As you are aware in quarter 1, we closed our Atlanta Research Facility and integrated our discovery facilities in Hyderabad with Aurigene's operations.

In quarter 4, we reorganized our North America Generics business to centralize all commercial and business functions in our New Jersey office and also to centralize all operational functions into our Louisiana facility. This will enhance simplicity and scalability allowing us to improve our service levels to customers and support the significant growth we see there in the coming years.

In our propriety products segment, we see good traction in the portfolio. With regard to our Phase-III product Balaglitazone we continue to await the guidelines from the European regulators for next steps. We expect this to happen in the next few weeks. With the initial trial demonstrating better safety and efficacy results, we are quite hopeful of monetizing this asset.

The pipeline also includes several differentiated formulations which we intend to commercialize through a mix of in-licensing, co-development and R&D. We continue to work with the authorities for final approval of our third biosimilar product Darbepoetin and we expect to launch it in the first quarter of fiscal 2011. We are also in the process of expanding our presence in the key emerging markets for biosimilars through various partnerships.

Our strategic alliance with GSK for emerging markets continues to progress well. In the fourth quarter the first set of shipments has been made earlier than our expectations to Mexico. While this may not be sizeable in value it is the first positive step towards building this strategic partnership. Further we expect to begin the next set of shipments to Brazil shortly. Till date there have been more than 50 dossier filings in various markets under this alliance.

With this I hand over to Umang to cover the financial highlights and Satish will then follow with the business highlights.

Umang Vohra, Chief Financial Officer

Thank you Prasad. All the figures referred in the financial highlight section that I will cover now are translated at the convenience rate of US $1 to INR 44.95. For the purpose of business highlights which will be covered by Satish later, the analysis is based on the average currency rates for the respective businesses.

The financial highlights of our performance are as follows. Consolidated revenues for the full year 2010 are at $1.56 billion representing a year on year growth of 1%. Excluding the authorized generic revenues from Sumatriptan the year on year growth is at 9%. Revenues for quarter 4 are at $365 million. Revenues from Global Generics business are at $1.1 billion for the year and this represents a marginal decline of 2% versus the previous year. Excluding the authorized generic revenues from sumatriptan, the growth is at 8% in this segment. Revenues for quarter 4 in this segment are at $248 million. Revenues from Pharmaceutical Services & Active Ingredients, our PSAI segment is at $454 million for the year, representing a growth of 9%. Revenues for the quarter are at $110 million.

Gross profit margin for the year at the company is at 52% versus 53% in the previous year. The change in gross margins is on account of a favorable mix of high margin revenues from Sumatriptan in the previous year. Gross margins for quarter 4 are at 53%. Within the segments, gross margins for

Global Generics and Pharmaceuticals Services & Active Ingredient segments are at 60% and 33% respectively.

SG&A expenses for the year are at $501 million and represent a growth of 7% over the previous year. SG&A expenses for this year include certain one-time cost pertaining to the restructuring of the workforce in Germany, closure of our R&D facility in Atlanta and the administrative office restructuring at Charlotte in the US. Excluding these one-time costs, SG&A for the full year would be at $477 million and that shows a very modest growth of 2% over the previous year. To adjust quarter 4 SG&A numbers, one would have to take $12 million out of SG&A because that relates to the cost of the Charlotte closure as \well as the social plan in Germany.

EBITDA at $332 million for the year represents a growth of 3% from the previous year. EBITDA for the quarter is at $69 million. In the recent past, we had been amongst the highest EBITDA generating Indian pharmaceutical companies. And the adjusted EBITDA at $356 million is 23% of the revenues and represents a growth of 5% over the previous year.

We have already explained in our quarter 3 call that the impairment charge for the year pertains to the impairment of goodwill and intangibles in quarter 3 pertaining to Betapharm.

Adjusted profit for the year is at $208 million and represents a year on year growth of 12%. The effective tax rate for the full year is at 20%.

Moving onto the balance sheet, the operating working capital reduced by $70 million. This is a result of the fall of Sumatriptan revenues and receivables as well as the efforts to manage our working capital at optimum levels.

Capital expenditure for the year is at $93 million. We have also managed a volatile year of foreign currency movements within our hedging principles. Our current foreign currency exposure of cash flow hedge options for the next 12 months stands at $414 million, largely hedged in the range of Rs. 45 to Rs. 49 to a rupee.

During the year we also repaid loans worth $133 million and our current net debt is at $180 million. At that level, the net debt to equity ratio is at 0.19 versus 0.34 in March 2009. I will now request Satish to take over the call please.

Satish Reddy, Chief Operating Officer

Thanks Umang. I will briefly cover the business highlights for the fiscal year 2010. We have ended the year with a profitable growth despite the previous year having a high base effect of the authorized generic sales of sumatriptan. The base business revenues demonstrated a growth of 9% which was largely led by the branded generics markets of India, Russia and other international markets. The growth in these markets helped us offset the impact of temporary product recall related slowdown in the quarter 3 in the US and also the effect of a rapid movement towards a tender based model in Germany.

The global economic crisis and its fallout had a significant impact on the active ingredients and custom services business for most companies in this space. So far our PSAI segment also the growth was somewhat subdued as our API customers started to hold lower inventories and exerted pressure on pricing leading to steep erosion in prices of key products. In addition, the delay in launching some of the new generic products by some customers of API either due to loss in litigation or extension of exclusivity period for innovative products also contributed to the muted growth in the API segment.

On the other hand our custom pharmaceutical business also showed lower growth than anticipated as our customers started clawing back on placing new orders. However we expect the growth momentum to resume in FY11 and onwards and in order to support the growth across the company we continue to aggressively pursue capacity expansion plans for both APIs and finished dosages.

Some highlights for our global generics business. Revenues crossed a billion dollars with 103 new product launches and 121 new filings this year. Talking about each of the markets:

North America for global generics, revenues for the year of $354 million, represented a decline of 18% from the previous year. If we exclude the authorized generic sales from Sumatriptan the year on year growth was 9%. For the fourth quarter we are quite happy with the growth in base business revenue at $77 million, which is a sequential growth of 21% of the previous quarter. We have arrested the decline in sales owing to certain product recall associated issues in Q3 and we feel confident about regaining our growth momentum from now onwards.

In terms of pipeline – Our ANDA filing rate which was off to a slow start in the earlier part of the year recovered considerably by the end of the year with 12 ANDA filings in financial year 2010. With this, we now have 73 ANDAs pending approval at the USFDA, of which 38 are Para-IVs and 12 are FTFs.

We are confident of a significant growth in North America generics business for the fiscal 2011 and this is fueled by several factors:

First, our steady base business of marketed products that is poised to grow this year through targeted share expansion of key molecules. Second, the new products launched in the recent past that will experience limited or no generic competition. Examples of these include products such as Omeprazole magnesium OTC which is a limited competition play, fluoxetine 90 mg which has no generic competition now and amlodipine/benazepril also with a limited competition play. Third, our product launch calendar looks very attractive with a number of launches being of a limited competition or no generic competition in nature. We have already disclosed some of these unique launches such as Fexo-Pseudo higher strength and fondaparinux while appropriate disclosures of some of our other interesting product launches will be made as we get closer to our launch date.

Moving onto **India,** revenue for the year is at $226 million. We have also crossed the milestone of 1000 crores for Indian business in rupees. We have finally turned around the business this year with a year on year growth of 20%. This was largely driven by the volume growth of 16% of some of our key brands. For the quarter, revenues are at $58 million. As per the ORG IMS data for MAT March 2010, our growth of 23% was well ahead of industry growth rate of 18%. Our growth also continues to be higher than average of the top 10 companies in India.

We have also improved our new product rank significantly from 25 in the previous year to 8 for this year as a result of one of the most prolific year for the new product launches for the company. 62 new products were launched in the past year and this has been the highest so far for the company. It contributed about 5% of the sales. From a therapeutic category viewpoint, dermatology and anti-infective segment provided the maximum number of new launches. Our new introductions also included products with differentiated technology such as Finrid, the brand name for Fentanyl Patch and also other interesting products that we have launched during the year. We are also in the process of launching our third biosimilar product Darbepoetin in the first quarter of the financial year 2011.

We also believe our growth for the next year in this market should continue to outperform the industry growth rate. We get this confidence with more than 600 field force expansion in the last one year which will enable us to widen our reach and also cover a high number of doctors. We are also hopeful of continuing the momentum in our new product launches through a combination of both in-house as well as in-licensed products.

Moving on to **Russia.** We experienced some weakness in the beginning of 2009 but, after the market turning around we have been able to catch up very well in the latter half of the year. Revenues at $152

million registered a growth of 21% over the previous year. We have launched six new products in the last one year. As per the Pharmexpert prescription secondary sales trend for MAT March 2010, it indicated a growth of 21% for Dr. Reddy's as against the growth of 8% for Russian market. Our rank in this market currently stands at 16. Our growth strategy for this market is based on expanding our OTC portfolio and a clear focus on differentiated products such as biosimilars. The growth will also be advantaged for various in-licensing deals which we are in the process of finalizing with various companies. The recent reference pricing reforms introduced in Russia are applicable only to its select products in our portfolio which is listed as part of the essential drugs list in Russia. We do not anticipate any significant impact on the business because of this move.

Talking about **Europe Generics.** Revenues are at $214 million declined by 19% from the previous year. The 14% growth in revenues of UK to $34 million partially offset the significant de-growth in Germany. As you are aware the market situation in Germany continues to remain challenging, revenues at 109 million euro represents a decline of 28% over the previous year. Currently more than 60% of the number of products won from the past tenders is vertically integrated. We are also beefing up our capabilities by increasing the vertical integration of our portfolio to compete more effectively in the tender based models. In the last few months we restructured our total employee strength in Germany to less than 80. With this we have downsized our workforce by more than 200 people in the last one year. This would enable us to manage a lean organization in this highly tender-based competitive scenario.

Talking about the **PSAI** business. On the backdrop of recessionary trends in the global economy and the rationalization of research spend by big pharmas and biotech companies; the overall growth in the PSAI business continues to remain somewhat muted for the year. Revenues for PSAI business at $430 million grew by 6% over the previous year. Despite no major product launches in the last year we have seen a slight improvement in our order book status from the end of the previous year. During this year we have also filed 36 DMFs including 24 in North America, 8 in Europe, and 4 in other rest of the world markets. With this the cumulative filings stand at 375 globally.

I now hand over this to Prasad for his closing comments.

GV Prasad, Chief Executive Officer

Thank you Satish. Before we begin the Q&A session I would like to brief you on our overall outlook.

We remain confident and excited about our US $ 3 billion revenue goal by fiscal 2013. We expect a large portion of our growth to reflect the timing of the significant patent expiries in calendar year 2011-12. We have visibility for a major part of the revenue goal and we are working towards supplementing our internal pipeline with various business development opportunities.

Our growth outlook for the immediate year ahead is quite optimistic from the back of various growth drivers such as the significant number of new launches in North America, the continued momentum in the Indian market through a combination of new launches as well as wider reach and the portfolio expansion efforts in Russia. We also envisage several upside opportunities from products such as fondaparinux and other products in our pipeline. All these growth drivers give us the confidence on our performance in the coming year.

For the next year we are guiding towards an ROCE between 18% to 22% in line with our 25% goal for FY13. And a significant part of our growth will come from the US Generics pipeline over the next three years. These will be driven by the regulatory approvals and litigation outcomes for our products which are sometimes hard to predict. We are committed to our FY13 revenue goal of $3 billion and continue to work diligently towards it. Given the multi-year nature of our goal and the variability associated with our business driven by uncertainty of launch dates, we decided that it would not be prudent for us to provide guidance on a yearly basis for revenues.

With this I would like to end and thank you all for attention. Now, we can open the forum for your questions.

Moderator Thank you very much. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Mr. Neelkanth Mishra of Credit Suisse, please go ahead.

Neelkanth Mishra Yeah, some clarification on the fourth quarter numbers. There seems to be a significant volatility in the quarterly sales especially in the US and in PSAI what we have done is subtracted the first three quarters from the full year number you have disclosed. Has there been any revision in the past numbers because the US sales seemed to be up quite significantly quarter on quarter and there was a sharp decline in PSAI.

Umang Vohra Neelkanth, without Imitrex we are showing $77 million roughly as the US sales. So I do not know if you have that number with you.

Neelkanth Mishra No actually it turns out to be much higher, maybe we will do the math again and then in PSAI?

Umang Vohra In PSAI we are showing a number of 492 crores. We do not believe these are volatile because it is actually up from quarter 3.

Neelkanth Mishra Right, if I add these numbers somehow I do not get to the full year number that you have disclosed.

Umang Vohra May be what you need to do is you are probably considering an exchange rate which is not consistent with the calculation. May be for the US you should just look at the business in dollars.

Neelkanth Mishra I understood. Okay, we will try that again. And then on the amortization charge, should we take this as the number going forward?

Umang Vohra You mean the quarter 4 numbers?

Neelkanth Mishra Yes.

Umang Vohra Yeah, roughly those would be the ones going forward.

Neelkanth Mishra And one more question then I will join back the queue. On fondaparinux we heard Mr. Prasad on TV as well, I realized that there is nothing and we have also heard Alchemia talk about it, there is clearly very little that is pending from your side but in terms of timelines if you were to model in this product, is this more a second half opportunity, is this a fourth quarter opportunity or should we expect something before that?

GV Prasad I do not want to hazard a guess. It could be anytime from weeks to months. So I would like to leave it there.

Neelkanth Mishra Okay thanks.

Moderator: Thank you Mr. Mishra. Our next question is from the line of Sonal Gupta of UBS Securities, please go ahead.

Sonal Gupta Just a couple of questions from my side. One was on the ANDA filing. We filed only 12 ANDAs this year; what is the R&D plan in that sense? How do you see that? Isn't that a very low number?

GV Prasad Yeah it is a number and it is a low number and numbers are numbers, I think given our focus on value added products as well as timing, this number has turned out to be a little disappointing. But as we go forward I think we will show better performance.

Sonal Gupta But any ballpark that you have in your mind?

GV Prasad I hate to look at numbers but our long term goal remains 80% of the addressable market will be covered by us. Addressable market is defined as the products in which we can compete and have the capability to compete and we feel that we are on track for that.

Sonal Gupta Okay, and just one more question before I join back the queue, you talked about pressure in terms of clients cutting back on inventory etc. but shouldn't that have been reflected earlier in the year and not in Q4. Any reasons why Q4 is weak?

GV Prasad I think it is just a question of timing. I think you will see that you know the API business is subject to inventories people carry. The amount of developmental products they buy. There are a number of different factors and as financial pressures increase some of them have cut back on this. So that is one reason, it is not the reason for the API business, some of the products launch dates have shifted, principally Montelukast which was a big product for us got shifted out from this year because of the result of the non-favorable outcome for our client. So I think it is just a matter of timing the API business will revert.

Sonal Gupta Okay. Thank you.

Moderator Thank you Mr. Gupta. Our next question is from the line of Bino Pathiparampil of IIFL Capital, please go ahead.

Bino Pathiparampil Hi. Just a question on Prilosec OTC, how is it ramping up? Would you be able to give a little more color on how it is going versus your original plans?

GV Prasad Firstly I think this is going slower than our original plan. The shift from retailers to our product has been a little slower because of the various issues of trade drugs and all that. Right, last quarter we told you that we have one major client, now we have three major clients. And I think we will see a steady ramp up. This will certainly be a significant product for Dr. Reddy's in the current fiscal year.

Bino Pathiparampil Right. And Allegra-D24 is the launch going to be this month or next month?

GV Prasad Next month most likely. We have temporary injunctions till the end of May.

Bino Pathiparampil Right, right. So how is Allegra-D24 different from any other generic where you can readily launch, most of the people launch the day they get the approval. How is this case different in the ramp up speed?

GV Prasad It should behave like a normal generic.

Bino Pathiparampil Okay, right. It should not make any difference. Just, bookkeeping question, what was the depreciation figures for Q4 and FY?

Umang Vohra For FY the total depreciation is about 258 crores.

Bino Pathiparampil Okay. And Q4?

Umang Vohra Q4 should be roughly the same if we divide that by four, Bino.

Bino Pathiparampil Okay, okay. Great, I will just get back to queue. Thank you everyone.

Moderator Thank you. Our next question is from the line of Bhavita Nagrani of MP Advisors, please go ahead.

Bhavita Nagrani Yeah, can you tell me how much of the growth from US Generic for the fourth quarter excluding Sumatriptan?

Umang Vohra It is up 21% sequentially, which means this quarter and versus quarter 4 of last year is up 5%.

Bhavita Nagrani Okay, can we take current gross margins of approximately 53% as the base margin for Dr. Reddy?

Umang Vohra We do not guide towards that but our historical average has been in the range of 52 to 53%.

Bhavita Nagrani Okay. And how much was the growth in Russia for the current quarter in Rouble terms?

Umang Vohra 8%.

Bhavita Nagrani Okay. And CAPEX for financial year '11 how much CAPEX will you be doing?

Umang Vohra We have mentioned that our CAPEX numbers would be in the range of 100 million, greater than 100 million.

Bhavita Nagrani Okay and how much is the current sales force for the domestic market?

Umang Vohra It is close to 3000 people.

Bhavita Nagrani Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Ranjit Kapadia of HDFC Securities, please go ahead.

Ranjit Kapadia Good afternoon. Sir just wanted to have outlook for the German market and the second thing about Balaglitazone, are we planning to out-license the molecule.

GV Prasad The Balaglitazone we have already a co-development partner so once we get the feedback from EMEA we will determine our path forward.

Ranjit Kapadia German market outlook sir.

GV Prasad German market I think continues to be on the pressure as a result of the tender situation. Sales should be marginally less than last year's sales.

Ranjit Kapadia And are we taking any other measure except reduction of the field forces that you have already done or any further action is required?

GV Prasad Yes, there are two things we are doing. One is we are getting more products shifted into India which will have the benefit of both Indian cost as well as vertical integration with our own API. This way, we will be more competitive and hopefully will win more tenders that is one whole area of strengthening the tender products pipeline. We are also looking at ways to address the non-tender business which could be based on prescription generation and other thoughts are very preliminary at this time, but there is another initiative we are thinking about.

Ranjit Kapadia And can you give the outlook on Omeprazole Magnesium OTC product?

GV Prasad I have already answered that question that the off take has been less than expected, but we expect to ramp up now.

Ranjit Kapadia Okay, thank you very much and all the best.

Moderator Thank you Mr. Kapadia. Our next question is from the line of Manoj Garg of Emkay Global. Please go ahead.

Manoj Garg Yeah, good evening to all of you. Just wanted to understand about your ramp up in GSK deal, you said that first discussion already started in Mexico and you expect in next couple of months probably in Brazil, so how many countries do you expect to start in FY11?

GV Prasad I do not have the exact number of countries, but large sales will come from a few countries. It is more important to understand which countries they are shipping to. The other countries will be Mexico, Brazil, Turkey, and some other smaller countries in Asia-Pac and South America and Middle East.

Manoj Garg So if we discussed in terms of number of products, any ballpark number.

GV Prasad I think the number of products also and the number of countries is not the right discussion to have and this is a branded business, ramp up will be slow. The number of products registered would not correlate with the sales that significantly. Sales will start becoming significant in the third year as we launch products across the world. There are three classes of products we are working with GSK. One is plain vanilla generics; the second one is differentiated products based on some innovation to address unmet medical

needs; third one is some biosimilars, not all the biosimilars, but a few biosimilars. This is the long-term game and I think we will see sizable revenues only from the third year onwards.

Manoj Garg Okay. Second thing like since we just introduced Lotrel, so in terms of price scenario how much we are able to garner our market share?

GV Prasad We do not give that level of specific details on a given product.

Manoj Garg Okay, but how is the price scenario overall?

GV Prasad I think it is comfortable, so pricing looks good.

Manoj Garg What is the tax guidance going forward like, is it going to be 20% or 17%?

Umang Vohra It should be in the 18 to 20% range.

Manoj Garg 18 to 20%. Thank you very much.

Moderator Thank you Mr. Garg. Our next question is from the line of Nitin Agarwal of IDFC. Please go ahead.

Nitin Agarwal Hi, good evening. I had a question on the German markets, when one looks through what comments Teva makes after they acquired Ratiopharm they seem to be indicating that there is a very thriving 75% of the non-tender market out there in Germany which they seem to be gung-ho about. Is there a business model issue which has been there with betapharm that the model has essentially confined to the tender business or the kind of issues we are going through?

GV Prasad It is a complex question to answer. Part of the market is tender and part of the tender market also can move to prescriptions by making a cross what they call as 'aut idem' which means 'do not substitute', but increasingly that is not going to be very high given the propensity of those fixed funds to lower cost. So, that large part of the market is going to move to tender and then there is a certain class of products which would not be tendered. The newer launches will not be tendered. The newer launches for sometime will be out of the tender. Secondly, there are categories of products like OTC and hospital

products which will be out of this tender system and some innovative products also which do not have competitors will not form part of the tender. As things stand if you look at the generic market alone, about two-thirds of it is non-tender and this is increasing as we go forward. Some of the larger companies have large portfolio of OTC products and products with marginal innovation which they can brand and then sell, those could be out of the tenders.

Nitin Agarwal Okay, so from our perspective that portion of the business was not a large portion of the business.

GV Prasad Not large.

Nitin Agarwal Do you see that changing as we go forward in terms of are we making a play in some of those areas?

GV Prasad I think we are making preliminary efforts. It is a bit early to tell you exactly what is going to happen.

Nitin Agarwal Sure and secondly on the SG&A cost, the cost cut measure that you have taken in Germany has the impact of that or already reflected in the current year numbers or most of it will come through in the coming quarters?

GV Prasad I think we had a charge on restructuring cost which appeared last quarter. Going forward, the reduced SG&A will be the number you will see.

Nitin Agarwal In recurring sense have we seen most bulk of the reduction impact in the numbers?

GV Prasad We have not seen the reduction impact. Full impact of the reduction has not been seen. It will be seen in the first quarter of this fiscal.

Nitin Agarwal Okay and lastly on the biosimilars front, you mentioned very briefly about strategy for launching biosimilars in other markets. Can you just throw some more light on exactly how you are going to do?

GV Prasad These are emerging markets. Darbepoetin, we are close to launch in India. It is a matter of weeks. The other biosimilars we started sales in a few select

markets, we are trying to register Rituximab in Russia. We just filed the dossier. We will have to do some clinical work. So we are trying to take our portfolio of three plus one which is going to be launched later this year and extend that to emerging markets. As of now, our strategy is to register in emerging markets. Our regulated market strategy is still being developed and maybe we can share that with you in the later part of this year.

Nitin Agarwal How much time will it take for you to get these products registered in some of these major markets?

GV Prasad This is no general rule. Each market is different.

Nitin Agarwal Okay, thanks very much.

Moderator Thank you Mr. Agarwal. Our next question is from the line of Mayank Kankaria of Deutsche Bank. Please go ahead.

Abhay Yeah, hi this is Abhay here. Couple of questions following up on the biogenerics issue. In biogenerics, are these products fully vertically integrated and are the entire development done by Dr. Reddy's?

GV Prasad Yes, completely in-house.

Abhay And what sort of development cost or CAPEX have you incurred as of date?

GV Prasad For each product, it varies, but typical cost for developing a biogeneric all the way for launch in an emerging market let say India would be about $3 to 4 million.

Abhay And what sort of CAPEX would it employ obviously it may not be a large plant, but for all these products put together, what sort of CAPEX would you have done?

GV Prasad We have committed about 100 crores to our expansion now and we are adding capacity as we expand our markets. So, it will be in the region of 100 to 200 crores for the next two years.

Abhay Okay and on a very low base that we have, can we expect biogenerics to be about 5% of revenues by 2013 or so or would it take much longer?

GV Prasad 5% of revenues on 3 billion would probably be difficult, may be a little less than that. Probably it takes longer.

Abhay Okay on Germany, revenues have come off. Now, when we take it forward, do we expect the current quarter almost and extrapolate or is it some price hit that you have taken or anything like that. What has happened?

GV Prasad I think the current quarter is may be a slight dip on that. I think it is hard to predict given the nature of the volatility of the tenders, but a range of 75 to 100 on an annualized basis would be appropriate.

Abhay 75 to 100 million dollars or Euro? So €75 to €100 million is what we could look at sort of stabilized revenue going forward? And in terms of profitability, would it be reasonably profitable with all your cost cuts having gone through?

GV Prasad Yeah.

Abhay The other question was in terms of Russia, the growth has come down because of price cuts or do we see that happening from April-June quarter onwards?

Umang Vohra The current quarter numbers do not reflect any impact of the price cuts Abhay.

Abhay Okay, so what sort of impact could we expect going forward because we have no idea on how many products, what is the range of price cuts, or such a profitable market that you have?

Umang Vohra I do not think we are looking at the best of the prices we are seeing, we are not seeing a significant impact to our financials.

Abhay Okay, so we would continue to do good growth on the numbers that we have on the Russian market?

Umang Vohra That is right.

Abhay Lastly in terms of the U.S. market, D24, there is no injunction by May, would you go with it and launch it or the injunction order, how do we go about?

GV Prasad I think in June we would be ready to launch.

Abhay Okay, but the patent holder has filed for injunction, so do we expect the order either ways to come through by then or what is the scenario?

GV Prasad I think we do not expect the injunction to come through given our legal position, so we are expecting to launch it.

Abhay Okay, fine, thanks a lot.

Moderator Thank you. The next question is from the line of Prakash Agarwal of RBS. Please go ahead.

Prakash Agarwal Hi sir. On the domestic business front, we have been seeing flattish growth Q-on-Q, but year-on-year was obviously good. So, should we take this similar growth rate year-on-year or do we see growth rate tapering down going forward?

GV Prasad I think you can take the current year's growth something that we will try to achieve even in the current fiscal year.

Prakash Agarwal That would be 20% plus kind of growth.

GV Prasad Right.

Prakash Agarwal Okay and on the biosimilars, currently what kind of revenues you are actually clocking in with two products and the third one coming in recently?

GV Prasad I think this year would be something north of 100 crores.

Prakash Agarwal Okay and betapharm you would see similar, I mean quarterly it would be similar what we seen in the fourth quarter or we could see some growth in the revenue front?

GV Prasad I have already answered this couple of times. The revenue would be slightly lower than the fourth quarter somewhere in between €75 to €100 million.

Prakash Agarwal Thanks very much.

Moderator Thank you Mr. Agarwal. Our next question is from the line of Saion Mukherjee of Nomura. Please go ahead.

Saion Mukherjee The first question is on the U.S. market, can you share like how many launches are you expecting in FY11 or if you can share the brand size of the market?

GV Prasad 13 products. Brand size, we do not have it readily we can give you.

Saion Mukherjee And in how many of them you have tentative approval already?

Umang Vohra I think about 3 to 4 are already tentatively approved Saion and the others we are hoping to follow through by the end of this quarter.

Saion Mukherjee Okay and Satish mentioned about some opportunities which can unfold during the course of the year. Now, can you throw some light as to how significant those opportunities can be?

Umang Vohra I think we had mentioned that some of those could be products like fondaparinux, etc., and there are a couple of others which we are for now not disclosing, but those products could be anywhere in the revenue range of 0 to 40 million.

Saion Mukherjee Okay and on biosimilars, did you share any timeline for registration of Rituximab in Russia which you mentioned?

GV Prasad We just filed a dossier. We have to do clinical study and it will take more than a year I think till we see registration.

Saion Mukherjee Okay and how big is this market in Russia currently?

GV Prasad Rituximab is $120 million.

Saion Mukherjee $120 million. And about darbepoetin and other products, so what is the timeline for launch of products other than darbepoetin for India?

GV Prasad Darbepoetin is the most visible product which is launched in the next few weeks. Later this year, we could probably launch another product.

Saion Mukherjee Okay, thanks a lot.

Moderator Thank you Mr. Mukherjee. Our next question is from the line of Ranbir Singh of Brics Securities. Please go ahead.

Ranbir Singh Good evening sir. During Q3 in this fiscal certain products are taken back in U.S., so can you give some light on what was happening there and whether we are planning to re-launch it?

Satish Reddy It has only been recall of a particular lot of the product. It is the four different products which was one lot each of those products which happened at that point of time. So there were some temporary slowdown in sales during that quarter, but it did not mean that we have taken the product off the market, so that has started coming back.

Ranbir Singh Okay and what kind of restructuring is actually happening in North American business, can you throw some more light on it?

Satish Reddy I think we have already covered it in the text, but just to tell you briefly. What we have done is we have restructured in such a way that the generic business which used to based out of Charlotte, commercial and supply chain part of it, they have been moved out, the operations part of it into Shreveport the other one into the Bridgewater office, so Charlotte as a result is being shut down, that is what we said.

Ranbir Singh Okay, thanks a lot so much.

Moderator Thank you Mr. Singh. Our next question is from the line of Sameer Baisiwala of Morgan Stanley. Please go ahead.

Sameer Baisiwala Good evening. Just talking about Russia, probably so far so good, but looking it on the more like two, three or four years basis, how do you think that the regulatory framework for the policies could change and would it be beneficial or detrimental to Dr. Reddy's?

Satish Reddy So the first one in terms of some of the policies had to do with the reference pricing thing right, so that I think it affects lot of companies, but to us, it has been a minimal impact. Right, so that is the first step that you have seen. In

terms of any further regulatory changes, I mean that is something we have to wait and see as it unfolds in Russia. As of now, we do not see any alerts as such. That is the way as of now. But if you see Dr. Reddy's plan in this market, we are aiming for two-three things there. One is the OTC portfolio; there we have significantly stepped up our marketing investments. Also, the number of products that will be launched in the segment also will keep increasing step-by-step, just about three-four, but they will increase. But if you see the whole portfolio itself, right so it will be a mix of our own in-house product that we launched as and when they get approvals and there will also be products that we have struck deals with other business which will also launch in the market. Some of them will happen pretty soon. These kinds of portfolio expansions coupled with OTC expansion, we feel quite confident that the growth momentum can be maintained in Russia.

Sameer Baisiwala Okay and just shifting gears to U.S., what is holding up the approval for Allegra-D12 and do you think this could be a meaningful opportunity?

Umang Vohra Sameer, we are not yet approved for the product and I think that we believe that there is some discussion about its second exclusivity, though the party in question has not launched as yet. So, if this party does not launch then we would just be expecting approval and if we would launch shortly thereafter, but if the party does have exclusivity and we believe that probably one of the reasons why the approvals are being held. We have a tentative approval on this Sameer.

Sameer Baisiwala Okay and can you give us a general color as to what is really driving your fiscal 2011 ROCE guidance of 18 to 22%, what really means at 18 and what at 22?

GV Prasad I think 18 or 22 depends on the product approval timeline, but major portion of the improvement will come through the product opportunities in the U.S.

Sameer Baisiwala And would you say 22% includes some of the other non-disclosed opportunities or that could be an upside to that?

GV Prasad There could be an upside to that.

Sameer Baisiwala Thank you sir.

Moderator Thank you. Our next question is from the line of Mr. Sonal Gupta of UBS Securities. Please go ahead.

Sonal Gupta Hi, just have a couple of follow up questions. One was on India in the last quarter you announced you had the sales force of 2000 which including 800 on contract, this quarter you said 3000, and so have we added 1000 people in this quarter?

Umang Vohra Yes, it is an ongoing exercize, not only in this quarter. We have ramped up the total field force and we have added about 600 people for the operations of FY11.

Sonal Gupta So your total field force now stands at 3000?

Umang Vohra Close to 3000, yeah.

Sonal Gupta Okay. The other question that I had was again on Russia, just wanted to understand when you are referring to price cuts, is it just to the reference pricing part of the portfolio or have you taken any cut from the OTC side as well?

Satish Reddy It is just the reference pricing that is all.

Sonal Gupta The OTC portfolio is not affected.

Satish Reddy It is not because it is an essential drug list from which this prices are applicable, reference pricing.

Sonal Gupta Alright and just on again on the guidance, I understand that there is a lot of variability and volatility in terms of product approval, but any reasons why you are not willing to give a baseline guidance given that we do have such a strong longer term outlook in terms of getting to 3 billion in FY13. So why something like, say, a 10% of revenue growth has not been thought of?

GV Prasad We do not want to give a guidance which is hard to predict when there is so much variability in product launch timing and all that, but the 3 billion goal is that what guides our efforts and if there is an aberration within the year or

not, we are not too concerned about that. We do not want to keep giving accurate guidance, that accuracy is not possible. So it would mean giving you some number, trying to live up to it, and unnecessary process that we thought is better avoiding it.

Sonal Gupta Okay and what is the ROCE this year adjusting for the……

GV Prasad 17%.

Sonal Gupta Okay, thank you.

Moderator Thank you. Our next question is from the line of Kartik Mehta of Daiwa Capital Markets. Please go ahead.

Kartik Mehta Hi, could you share the amount of inventory of Lotrel in the market and have we adjusted for anything in the situation that another player enters and there could be some chargebacks.

GV Prasad Those kinds of questions we cannot answer at that level of details giving away competitive information.

Kartik Mehta Okay and in terms of Fexofenadine, are we close to getting back the lost market share or would it take time?

GV Prasad We are steadily increasing our share and we are not aggressively going against the reducing price on the product, so the ramp up will be steady and slow.

Kartik Mehta Okay, thank you.

Moderator Thank you Mr. Mehta. Our next question is from the line of Mr. Prashant Nair of Citigroup. Please go ahead.

Prashant Nair Hi, I had a question on Lotrel, by when do you expect the competition in this market to normalize in the sense that you would be expecting some more players to come in later on in the year. When do you expect to reach a situation where you would see a stable number of players?

GV Prasad I think that is hard to predict. We cannot predict when the next guy will get approved.

Prashant Nair Okay thanks.

Moderator Thank you Mr. Nair. Our next question is from the line of Vihari Purushothaman of Enam Securities. Please go ahead.

Vihari Purushotham Hi, on the GSK deal, most of the people who have had similar deals with other players like Pfizer have substantial part of income coming from dossier transfers, etc., so is there anything of that sort which we have received and has it been booked and secondly the sales per se going forward where do we intend to report those, will it be under separate line item under global generics or will it be subsumed under others.

GV Prasad So firstly, we have not done a deal where we get paid for dossiers. Our deal is more structured towards participating in the market place. So, we take the cost of developing it on our books and share in the revenues that are generated in the market. The sales will be shown in the global generics as a segment.

Vihari Purushotham As a separate line?

GV Prasad May not be a separate line it will be part of the global generics part.

Vihari Purushotham Okay and the guidance that you have given, recently seen that the FDA's average timing for approval has gone to 26 months or so, so is there any sort of internal assessment which you have won and what sort of the rate you will get approvals within that.?

GV Prasad Our average rate has been significantly lower than that. I think the FDA's prioritizing first time approvals has a different rate than the me-too products which are already launched as generics. The majority of our products coming in as the first wave of generics, we have not seen significant problems there.

Vihari Purushotham Okay, thanks.

GV Prasad Thank you.

Moderator Thank you. Ladies and gentlemen due to time constraints, that was the last question and I now hand the conference over to Mr. Kedar Upadhye and the management for their closing comments.

Kedar Upadhye We thank you all for joining Dr. Reddy's management for the earnings call for the fourth quarter of fiscal 2010. In case of any further queries, please get in touch with IR Desk and will be happy to resolve those queries. Thank you.

Moderator Thank you gentlemen and the management team. Ladies and gentlemen on behalf of Dr. Reddy's laboratories that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.