

**Dr. Reddy's Laboratories Limited**  
**Fourth Quarter Fiscal 2009**  
**May 18, 2009**

**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 31, 2009. We hope you have all had a chance to review our press release, which was issued earlier this afternoon. The results are also posted on our website on the homepage under the Quick Links icon. To ensure full disclosure we are conducting a live webcast of this call and a replay of the call will also be available on our website soon after the conclusion of the call. Additionally the transcript of this call will be made available on our website at [www.drreddys.com](http://www.drreddys.com). Please note that all discussions and comparisons during the call will be based on IFRS numbers and the IR Desk will be available to answer any query relating to the Indian GAAP immediately after the conclusion.

To discuss the results and the 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 Umang Vohra, our Chief Financial Officer.

**Umang Vohra, Chief Financial Officer**

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Thank you Kedar. I welcome all of you on the call today.

Before I begin on the financial highlights, I would like to mention that the average translation rate for the year has been around Rs. 46 per US dollar. However for the convenience of external reporting, all figures have been translated at the convenience translation rate of 1 US dollar = Rs. 50.87.

Let me start with the highlights for the fourth quarter.

- Revenues are at \$390 million, the highest for any quarter in the last two years, FY08 and FY09, representing a growth of 50%. Excluding revenues from sumatriptan our growth is 23%.
- Revenues from Global Generics business grew by 68% for the quarter.
  - Excluding revenues from sumatriptan, the growth is at 26%.
- Revenues from PSAI business grew by 11%.
- The Gross Profit margin is at 54% as against 53% in Q4 FY08. The growth of 53% in absolute value of Gross profits is higher than the sales growth of 50%.
  - The margin in the Global generics segment is at 62% as against 61% in Q4 FY08.
  - Gross Profit margin in the PSAI segment is at 30% down from 38% in Q4 FY08. This decline is primarily due to the impact of procurement prices, the impact of forex hedging on sales and a change in the product mix.
- EBIDTA is at \$108 million as against \$51 million in Q4 FY08, representing a growth of 113%. This growth is much higher than the growth in revenues of 50%.
- SG&A expenses registered a growth of 12% which was well lower than the sales growth of 50%. This reduction of SG&A as a % to sales is largely due to the close monitoring of costs all across the company.
- PAT adjusted for one time exceptions is at \$64 million as against \$22 million in Q4 FY08.
- During this quarter, triggered by certain adverse market conditions such as decrease in market prices and an increasing trend of change to a tender supply model with the State Healthcare Insurance Fund companies (such as AOK), the Company tested carrying value of betapharm intangibles for impairment. As a result of this, the Company recorded a non-cash write-down of intangible assets amounting to \$62 million, translating to \$43 million net of tax benefit.

- A large portion of the goodwill existed due to the branded nature of the market and doctors' equity that betapharm enjoyed. As the market has now moved to a tender supply market and since the drivers for the market have changed, this goodwill had to be evaluated for impairment. Consequently a non-cash charge of \$213 million has been taken.
- Post these charges, the carrying value of betapharm intangibles (including trademark) and goodwill in our books on a net basis is approximately Euro 50 million and Euro 160 million respectively, and cumulatively Euro 208 million.

Let me now explain the full year performance,

- We continued to maintain a topline run rate of \$100 million per month this year with approximately 72% coming from the Global Generics business and 27% from the PSAI business.
- Our full year revenues are at \$1.4 billion.
- Revenues from Global Generics at \$979 million.
- Revenues from PSAI at \$369 million grew by 13%.
- EBIDTA at 21% of sales is at \$285 million as against \$190 million in FY08, representing a growth of 50%.
- Gross Profit increased by 44% over last year, higher than the sales growth of 39%. The Gross Profit margin is at 53% as against 51%, which reflects the benefit of rupee depreciation against dollar as well as favourable product mix and partly offset by high input costs we saw this year.
- SG&A expenses as a % to sales is at 30% in FY09 as against 34% in FY08. The absolute increase of \$81 million was in line with a higher sales growth and the impact of currency on expenses outside India.
- Profit before Tax pre-non cash impairment is at \$197 million.
- Effective tax rate for the full year works out to 21% on account of higher current tax on sumatriptan profits in US.
- PAT adjusted for one time exceptions is at \$167 million as against \$88 million, representing a growth of 89%.
- As a result of the impairment that we discussed earlier, the net loss for the year which we have reported is \$ 102 mn.

Moving on to the balance sheet,

- On receivables, we saw an increase of \$30 million, during the quarter. A large portion of this increase is on account of sales of sumatriptan in the US.
- Our Inventories decreased by \$38 million, during the quarter.
- Capital expenditure for the year was at \$87 million.
- We ended the year with a cash position of \$110 million.
- We have hedged both our receivables and partly our future sales.  
The cash flow hedges are total of \$ 120 million.
  - \$60 million of options hedged in the range of 45 and 49
  - \$60 million of options hedged in the range of 45 to 50
  
- Total net debt is at \$277 million and this translates to a net debt to equity ratio of 0.34.

I would now like to turn the call over to Satish, our Chief Operating Officer.

**Satish Reddy, Chief Operating Officer**

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Thank you Umang.

Before I begin with the key business highlights, I would like to discuss few important events that happened during the year:

**First**, FY09 performance was well supported by the successful launch of the authorized generic version of GSK's Imitrex® in late November 2008. Currently, the market for this product consists of 4 players including GSK and us. We are pleased to mention that we have been able to maintain an almost 50% market share with attractive margins so far. We believe the exclusivity for sumatriptan would last upto the first week of August 2009 so we should be able to extend our gains from this product into the first quarter of FY10 also.

**Second, AOK tender** - In Germany, as you are aware of the AOK tender results, betapharm has been offered 8 products which translate into 33 contracts overall. We are amongst the Top 3 companies in terms of no. of contracts awarded. However, the tender was on hold for sometime due to the ongoing legal issues and as per the recent press release of AOK, all our 8 products have been cleared of the legal hurdles. We expect to start our supplies to AOK under this contract from June 2009 onwards.

**Next is the Olanzapine damages** - With regard to the olanzapine patent suit, in December 2008, the Federal Supreme Court of Germany ruled in favor of Eli Lilly upholding the validity of the patent. This has resulted in a claim for damages of €14 million for Dr. Reddy's, which is included under the head of Other Operating Expenses.

Let me now cover the business & financial highlights in each of our key markets for the Global Generics business:

**North America**

- Revenues are at \$390 million as against \$158 million in FY08. The growth was driven by the successful launch of sumatriptan and volume expansion in the rest of the portfolio.
- Revenues excluding sumatriptan grew by 24% in dollar terms. This was driven by high volume growth in most of our Top products in this market. Volume growth was 25% as against price degrowth of 12%.

- During the year we have filed 20 ANDAs taking the total filings to 144. We now have 69 ANDAs pending approval at the USFDA addressing innovator sales of \$46 billion. Of those pending approval, 30 are Para IVs and 18 are FTFs. The 18 FTFs address a market of \$9 billion.
- We also launched 16 products during the year in the US and received 23 ANDA approvals.
- We are very pleased with the favorable summary judgment ruling in the Omeprazole Mg OTC product litigation. We are awaiting FDA approval for this ANDA.
- On Fondaparinux, we have received notice of acceptance of our ANDA from the FDA. Being the first generic version for the innovator product, the application has been marked for priority review under the FDA's GIVE initiative.
- Earlier in the year, we had acquired BASF's Shreveport facility. This facility is now integrated with the rest of our Manufacturing Operations. Our objectives for this facility are one, to enter into the Government business, second, to serve as a packaging facility for the OTC business and third, to manufacture of high volume products. We are making progress on all the fronts.

In **Russia**, we continue to have our growth momentum.

- The secondary sales growth was in line with the market growth of 16%. However on volume basis, we have outperformed the market with a growth of 11% as against market degrowth of 0.2%. Revenue for the year grew by 12% in dollar terms and 35% in rouble terms. The growth was led by the Top 3 brands – Omez, Nise & Ketorol that currently hold a market share greater than 50% and also the success of our in licensed OTC product Bion.
- Following the grave economic scenario in Russia early this calendar year, I would like to highlight that as we have done on earlier occasions, we have managed our growth strictly within the credit limits to our customers. Currently, less than 10% of our receivables are overdue.
- This fiscal, especially during the second half, we have witnessed a sharp depreciation of Rouble against the dollar of approximately 42%. However, we have been pro-active in terms of minimizing this currency loss by constantly tracking the currency movement, focusing on receivables and adjusting our prices accordingly.

In **Germany**,

- Revenues were up by 20% year-on-year in rupee terms and up 4% in Euro terms. Strong volume growth has offset the decline in prices over the previous year. Our volume growth was 17% as against the market volume growth of 3%.
- The EBITDA for the full year is at €12 mn and if we exclude the one-time exceptional expenses on account of the olanzapine law suit, the EBITDA is at €26 million.

Moving on to **India**,

- This fiscal has been a challenging year with a revenue growth of just 5%. A part of this lower growth number was on expected lines as we embarked mid-year on a replenishment model for our supply chain that resulted in de-stocking of products at the stockists' level. We expect another round of destocking for Q1 also this year, although at much smaller levels compared to the previous quarters. The objective of this new model is to improve availability and reduce shortages in the near term resulting in higher secondary sales. Q2 should definitely show results of this effort.
- However, some of the lower sales can also be attributed to execution issues which are more internal during the year. Early in the year, due to issues with Raw material availability, we faced supply issues for some products that had an impact on sales. Also, there was a gap in our new product launches as compared to plan. We have addressed & resolved these issues completely and we are very confident of executing our plans for FY10.
- We had also restructured our sales & marketing organization to align it with the therapeutic area focus for our portfolio, by increasing the number of sales divisions and also preparing for increased new product launches this year.
- In spite of these setbacks, India still continues to deliver competitive and attractive profitability in absolute terms because of the strong brand franchise that Dr.Reddy's enjoys with its customers. 6 brands continue to feature in the top 300 brands in India and Omez, our leading brand had recently clocked the Rs 100 crs mark. Also contributing to the profitability is the growing and niche presence in therapeutic areas such as Dermatology, Dental, Urology and Oncology therapeutic areas, Oncology especially with our biologics products.
- Our presence in certain TAs is so strong that in some new products launched over the last 3 years, in spite of being late entrant to market, we have demonstrated ability to take market share and build sizeable brands (>Rs 10 crs) such as Leon, Razo, Pecef which have gone on to become leading brands in their respective segments.

We continue to expand our global product portfolio, both in terms of filings as well as global launches.

Now moving on to the **PSAI** segment

It has been a mixed year for our PSAI segment registering a growth of 13%. There have been no major product patent expiries this year and the credit crisis impacted the growth further in the year. We have seen some loss of business from the emerging markets as a result of clients adjusting their inventories for the active ingredients segment. However, this trend reversed itself and our order book now has strengthened significantly and stands up at greater than 30% of the earlier quarter.

Our strong IP expertise is integrated with an attractive DMF pipeline and during the year we have filed 55 DMFs globally and cumulatively we have filed 351 DMFs till date. The Top 10 products and the Top 10 customers contribute approximately 60% and 54% of our total revenues, respectively. In our services business, we have been able to source incrementally 7 contracts with large pharma this year that will soon translate into manufacturing contracts. Revenues have already started accruing from this segment of the services business.

Earlier this year, we had acquired Dow Pharma's facilities at Cambridge and Mirfield. The application of proprietary technology from Cambridge facility enabled us to reengineer costs for some of our major products that have resulted in significant savings in the active ingredients and more importantly provides us a competitive advantage as we compete in the global generics space.

For the discussion on the business outlook, over to you Prasad.

**GV Prasad, Chief Executive Officer**

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Thank you Satish.

To begin with, I would like to provide a status update on the guidance achievement for this fiscal year.

- At the beginning of the year, we had guided a revenue growth of 25%. I am happy to report that we have grown by 39% in rupee terms and this was of course aided by favourable exchange rates. Even at constant currency levels we have met our Guidance.
- Gross Margins at 53% is above the guidance of 50% +.
- R&D spend at 6% is in line with the 7% guidance.
- On profitability we guided for improved profitability. Adjusted for one-time exceptions, the current net profit at 12.3% which is higher than 9.0% for FY08.
- In Germany, due to certain unanticipated developments such as olanzapine withdrawal and higher than anticipated price erosion, we fell short of our absolute EBITDA guidance of \$39 million, and we ended the year with an adjusted EBITDA of \$36 million.

The guidance for the next fiscal FY10 is as follows:

We expect a moderate sales growth, with improved earnings on the base of large increase of last year. The year will also clearly represent a baseline for future growth as we believe we now have the critical size of turnover for our base business coupled with visibility of atleast one upside opportunity every year from the US.

These opportunities are not just one off product exclusivity opportunities that deliver substantial value in a short period of time, but offer some level of annuity in sales due to the uniqueness of the product or due to limited competition. Also the breadth of our businesses and geographies at such a base turnover can now cushion in any minor setbacks in growth in a particular market. So here is what we can guide for FY10:

- Revenue growth of 10% in rupee terms on a higher base of FY09 that included a significant upside from sumatriptan and resulted in a growth of 39% over previous year. Basically, we are going to grow 10% this year on the back of last year's 39% growth.
- In the medium term, our growth aspiration will be in the 20% range over next 3-4 years.
- Return on Capital Employed for Fiscal FY10 will be in mid to high teens.
- We expect the second half in FY10 to perform much better than the first half. Both India and the US are expected to achieve higher sales in the second half of fiscal FY10 based on product launch schedules.
- The above guidance is based on a conservative sales estimate of omeprazole magnesium and does not factor fondaparinux launch in the US.

I now move on to the business outlook.

First, the Global Generics business.

Our focus in the last few years has been on building global presence in our businesses. We believe we have largely achieved global presence and size and going forward, our focus will be on sustained profitable growth. As part of this endeavor we have exited small distributor driven markets to increase our focus on large key geographies where we already have a strong presence and the market has significant room for growth.

In addition to this focus, we are also calibrating our investments in our proprietary products businesses and other high risk initiatives to reduce volatility in our earnings.

The **North America Generics** business has scaled up rapidly. With the combination of a very attractive pipeline and well planned infrastructure & capabilities, we are on course to see attractive growth in the future. In the last few months, we have witnessed several triggers indicating attractive potential for growth in this market.

- First, build up of our product portfolio including possibilities of at least one special opportunity launch every year on an ongoing basis.
- Second, strong supply chain performance resulting in high service levels to our customers
- And thirdly, our ability to achieve and maintain increased market share of our products.

In the next few years a large number of patents are set to expire and we have adequately positioned our pipeline & infrastructure capabilities to address a majority of these opportunities.

**Germany** has been one of the toughest challenges, however it does provides a good potential in terms of its generic market size. Germany now contributes 14% to our total sales.

Over the past six months we have spent significant efforts to realign our business strategy in the German market. We are aligning our organization structure in betapharm to remain competitive in the emerging scenario. Some of the steps taken are :

1. For the second time in the last two years, sales force has been restructured (from 250 to ~ 110)
2. Several more products were shifted to manufacturing locations in India.
3. We are focusing the sales and distribution effort to manage high availability at pharmacies and ensure success of new product launches.

We believe that the business model in Germany today is one of “High volumes & lower margins”. Our focus is to improve the absolute profitability in this market.

Our **India** business, as Satish mentioned, we are completely focused on turning it around. Despite several quarters of consistent growth over the years until mid-FY08, beating industry growth rates all along, the decline over the last few quarters have exposed some of the weaknesses in our approach & also in our execution. We have identified certain areas in terms of improvement & priorities.

- Firstly, new product launches shall be ramped up utilizing a combination of both in-house and out-sourced products. (This will reduce our dependence on in-house products, which was the case earlier)
- Secondly, in terms of portfolio coverage, we realize that our width in terms of therapeutic coverage is lower than most of the peer group companies. We will bridge this gap by filling the portfolio aggressively and extend our reach into the market with our Field Force.
- Thirdly, we have historically never been among the leading players in some of the larger regions of the Indian market. These regions have underperformed and we are taking steps to plug this by increasing our coverage in these regions.
- Fourth, we have undertaken new initiatives in potential growth segments such as corporate hospitals and rural areas. These measures combined with our supply chain excellence will help us return firmly on a growth path in India.

**Russia** continues to remain a very attractive market for Dr. Reddy's both in terms of growth & profitability. Despite the recent concerns on currency and credit risks, we have taken steps to mitigate the risks in this market. This has also been helped by the fact that we have established a very strong brand franchise with our distributors in Russia.

With the success of Bion-3, a probiotic that was licensed from a European major, we are now in a preferred position for in-licensing products. This combined with our in-house product pipeline has helped us build a robust product portfolio for the Russian market in chosen therapeutic segments. The OTC segment is a sizeable portion of the pharmaceutical market in Russia. We intend to expand our presence in this segment. It would be too optimistic for me to mention that the market may offer the high historic growth rates going forward; however we expect healthy and robust growth rates to continue although we may see near term growth challenges due to prevailing market conditions.

Besides the large markets that I talked about, we are also present in other emerging markets that offer high growth potential, China & Latin American countries and groups of medium sized geographies (such as SA, ANZ, CIS). These also will add to the revenue growth. Through a mix of alliancing, JVs and own operation, we expect to continue to build on the opportunities for growth offered by such markets.

Overall, we see a strong growth potential in our Generics Business.

Our **Pharmaceutical Services and Active Ingredients** business catering to both the generics and innovator customers is one of the largest in this segment. We will leverage our manufacturing, R&D and IP expertise to cater to a wide range of customers and product/service requirements. Our attractive DMFs coupled with a good number of customer lock-ins should enable us to cover a large share of the patent expiries going forward.

As a result of the credit crisis we have experienced slow down of orders from Biotech customers and also from the large pharma pipeline business. We believe this is a temporary phase and we expect to return to growth in the next few quarters. The change in business model in the services segment to switch to a more product based service offering based on our extensive pipeline of APIs combined with IP expertise is beginning to show results. More contracts are in the offing and this segment should show significant revenue growth in the future.

**Biologics** would be a differentiating factor for Dr. Reddy's in the next few years with respect to our peers. The development of 9 pipeline products are on track. We expect to launch two products in India in FY10 and at least one product every year thereafter. We will continue our efforts to expand our presence in other emerging markets while we develop our approach for the regulated markets.

In our **Proprietary Products** business, we are pleased to announce that we have filed 3 INDs in March 2009 and they have also been accepted by the concerned regulatory agencies. The first molecule is for the treatment of COPD and the other two molecules are for the treatment of Dyslipidaemia.

We will shortly announce re-organization of our efforts in the NCE and differentiated formulations area. This we believe will lead to better cost management and calibration of our investments in this area.

Before I end, I would like to reiterate our priorities:

- Firstly, to deliver consistent and improved profitability.
- Second, to focus on our growth in key markets and work towards leadership positions in these markets through a strong pipeline and supply chain excellence.
- And finally, phase our investments in a measured way to build a sustainable proprietary products business.

I am quite confident that we are well on track to achieve these goals and maximize the value for our stakeholders.

Thank you for your attention, we will be happy to take your questions now.

**Question & Answers Session**

Nimish Mehta: I have a couple of questions. First of all you mentioned that in Russia you had grown by 16% in local currency terms. Did I hear correct?

Umang Vohra: Yes that is correct. That's in secondary sales.

Nimish Mehta: In terms of the steps that you are taking to mitigate the currency risk, first of all have you been able to or are you likely to increase your pricing by about 30% which is kind of covering the depreciation that has happened?

Umang Vohra: Some price increases have already been taken, and in the last three months we have not seen any Ruble movement, the movement was only what we saw in January. After that we have not seen too much of Ruble movement at all, it is steady at 34, if and when it does appreciate we will take appropriate pricing measures.

Nimish Mehta: But on an aggregate basis then the pricing would not have increased by 30% so are you likely to see any impact on the margins going forward considering that the Ruble will stay at the same level?

Umang Vohra: We have increased our prices in the past because of the 30% devaluation. We believe from a margin perspective we should logically be around the margins that we had pre the Ruble devaluation.

Nimish Mehta: There will not be any impact on the margin?

Umang Vohra: If there is we will offset it by pricing at appropriate times.

Nimish Mehta: So whatever has been done so far has been compensated by the increased price.

Umang Vohra: Yes.

Nimish Mehta: Just wanted to know the reason for the sharp increase in credit receivables and the decrease in investments?

Umang Vohra: Yeah so trade receivables are higher because of the sumatriptan sales in the US and they are higher by 335 crores because of that.

Nimish Mehta: Okay and there is almost 100% increase in that ...

Umang Vohra: Yeah so a large portion of that is sumatriptan and also the rest of it is the sales growth which has gone up by 24%.

Nimish Mehta: And investment has decreased substantially.

Umang Vohra: Yes so those investments that you look at are the ways we deploy our cash, sometimes they are deployed into mutual funds and sometimes they are deployed into fixed deposits. And if you look at the total cash and cash equivalent as well as the investments that would give you a perspective of our cash that has gone down because we invested the money in acquisitions that we made at the beginning of the year.

Balaji Prasad: Hi, good evening everyone, thanks for giving guidance of 10% on a top-line seems impressive on the FY2009 numbers, can you just give us the breakdown of where this is going to come from?

GV Prasad: We are moving away from giving geography specific guidance, overall we expect to grow 10% and we are not breaking it down by geography.

Balaji Prasad: Maybe you cannot give a specific breakdown, which are the geographies that you expect to improve upon your performance?

GV Prasad: Generally all geographies will show some growth, but maybe US will grow significantly more.

Balaji Prasad: If I can just ask a second question, more on Betapharm in Germany what kind of business outlook do you see over here do you expect to take any further write downs and if so what are the points which could prompt you to do this?

GV Prasad: Okay I think given that we have taken a large write down now, going forward I hope not to see anymore write downs if something happens

that should be very marginal and not significant to me, that we have discussed. Going forward the business I think we are expecting it to be flat this year. And slowly picking up as we launch products from our stable into Betapharm as the product portfolio shifts towards more of Dr. Reddy's products, then we expect to see increase in profits.

**Balaji Prasad:** Okay. What about the AOK in Germany, since you are supplying to them from next month how is it going to impact your top-line, bottom-line, what are the products which you are supplying to them?

**GV Prasad:** Well I factored that already in when I said that it is going to be relatively flat.

**Neelkanth:** Yeah thanks again congratulations sir on very good numbers. If I may press you a bit more on guidance, you did talk about ROCE improvements but any more detail on the margin front and corollary to that how much of these sales, if you were to remove omeprazole from this how much would the revenue growth be?

**Satish Reddy:** Last part of it, what you have asked, see we are moving away from this issue of one-off upside → with sumatriptan or without sumatriptan, say with omeprazole or without omeprazole, we are just moving away from all that right; so that is one of the reasons why we do not want to give any specific in terms of sales be it country specific, it is product specific right so that is one of the reasons why I cannot specifically answer your question. On the guidance Umang will take you through.

**Umang Vohra:** We are guiding everybody on the ROCE target but you could expect to see profitability higher than the sales growth that we have expected, the profitability increase would be higher than the sales growth as a percentage terms.

**Neelkanth Mishra:** My second question is on pricing in Russia and Germany. I am trying to stretch it a bit. In Russia you talked of volume growth of 11% and the revenue growth is obviously higher. And so clearly the price increases were higher than what Ruble depreciation was. And the second question

is again pricing in Germany, we are talking about in Euro terms 1% decline in revenues and on 16.5% increase in volumes implying the prices as 15% year-on-year just want to check it if that number is correct and how would you respond to the question?

Umang Vohra: Your observation is correct, the SHI contracts that we had in Germany were significantly higher than last year and so on a net basis the company did suffer a decrease of the order that you mentioned in pricing.

Neelkanth: And on Russia sir did you see price increases over and above what happened, the Ruble, because if I look at the seasonal decline almost every year in the past few years there has been a 30% to 50% decline quarter-on-quarter in the 4<sup>th</sup> Quarter this time it is only 10% decline, so was there a major product launch or did you take major price increases, just trying to understand how sustainable this is?

Satish Reddy: See one of the reasons why that variation happens in the 4<sup>th</sup> Quarter especially last year was also to do with some new I mean re-registration of some of the products because all the products in Russia go through these re-registrations process for which we necessarily build up stocks, right so that was one of the factors which happened in the past so that is not to be seen at the trend so from now onwards we can be clear in terms of how does sales happen.

GV Prasad: Yeah but I think you know some element of inventory adjustments will be there, I think Q1 will be more muted compared to Q4, Q1 of this year in Russia.

Nimish Desai: Yeah good evening just one clarification on the guidance could you tell us what Rupee-Dollar rate has been assumed in giving this guidance?

Umang Vohra: Yeah we have assumed a rate of about 48 to the Dollar.

Nimish Desai: And the second question is if Rupee were to appreciate from current levels could you throw some color on what kind of FOREX losses you could encounter?

- Umang Vohra: So currently our hedging strategy is more conservative. We have hedged a lot less than the total exposure that we have so whatever losses maybe there will be contained to some extent through the hedging.
- Nimish Desai: But since you are hedged less that means, I mean your positions or you are more exposed to the adverse impact of currency appreciation?
- Umang Vohra: That is right, so the currency will impact us and we are saying that we will be able to offset that through the hedges that we have. To some extent not completely.
- Nimish Desai: Not completely, okay, thank you.
- Bino: Hi, congratulations on a good set of numbers, just couple of quick questions, may I know why you have not included fondaparinux in your projection, don't you expect its approval this financial year?
- GV Prasad: Well it is a lever which is not entirely in our control. It is likely to be launched and when it is launched it will be an addition to what we have guided so far. The timing of the launch is uncertain. It could happen in three months, it could happen in nine months, it depends on the regulators view, and how you know the process pans out, but I am happy to tell you that it is for an accelerated path of review under the FDA's GIVE initiative. So this is the first generic.
- Bino : Right, also given that you have taken a huge right down, could you give some guidance on the amortization charges going forward?
- Umang Vohra: Bino it would not significantly reduce because the large portion of the write off is on the goodwill. So it would not reduce significantly.
- Bino Pathiparambil: Okay right. And one last quick question is the FOREX gain that you have given as part of finance income and expense is that all related to hedging?
- Umang Vohra: We actually had a FOREX loss this year.

- Bino: Yeah sorry, loss or gain whatever.
- Umang Vohra: Yeah I think the loss that we have reported is largely because of the loss we sustained in the Russian subsidiary.
- Bino: Okay so that must be related to the receivable outstanding.
- Umang Vohra: That is right.
- Ranjeet Kapadia: Good evening and hearty congratulation for good set of numbers. And my questions relates to Betapharm, you have said that you are shifting some products to India and how many products are being successfully shifted and how many are planning to shift in this current year?
- Satish Reddy: See it does not matter because in the past we have talked about almost close to 40% of the sales in the first phase, right so volumes are presenting 40% of the sales what we have shifted to India. There are some more products which at any point of time we keep transferring technology and then move them back to India. The important thing is you know the entire portfolio it is not exactly how many of those products shift back to India because of majority I mean the ones continue to enjoy with, has already been done, right so depending on the volumes, depending on the margins, and it's growth potential those are the ones that getting for the further products being shifted back to India.
- Ranjeet Kapadia: And can you quantify how much of the benefit which are availed by Betapharm in the current year because of this shift?
- Satish Reddy: It is difficult to quantify because it is being the lot of movement in terms of pricing as well as part of internal issues.
- Sameer Baisiwalla: Hi good evening just to make sure that I heard you correct, you mentioned that the net profit margins for the fiscal 2009 was 12.3% and as far as the guidance for fiscal 2010 is concerned you expect improved profitability?

- Umang Vohra: Yes that is right, the margins for this year is 12.3, for last year it was about 9 and we are saying that we would improve profitability.
- Sameer Baisiwalla: Fantastic. And the second question is on Imitrex, as on end of March, how much was the inventory in the paid channel?
- Umang Vohra: We think that it is about two to three weeks and not more than that.
- Sameer Baisiwalla: Okay so which means that given that roughly about 4 months of a balance at the end of March so we would have one full quarter of Imitrex next quarter.
- Umang Vohra: Yeah.
- Rahul Sharma: I just wanted to know how much intangibles and goodwill would be on the books on account of Betapharm and other acquisitions, if you could separate and give it to me.
- Kedar: As on March 2009 after the impairment we have roughly 208 million on a net basis on the balance sheet, this is net of the deferred tax liability.
- Rahul Sharma: This is intangible?
- Kedar: Yeah that is right and if you add up the Beta brand, intangibles and the goodwill and net it with the deferred tax liability we have roughly 208 million on the balance sheet. So goodwill is 76 million, intangibles is 92 million and the brand is 103 million and you have got deferred tax liability at 62 million, which will offset this. So net it becomes 208.
- Abhay Shanbag: Yeah this is Abhay here, just a couple of questions, 1) omeprazole OTC, when do you expect it to be launched approximately what sort of timeline?
- Satish Reddy: We are still waiting for the approval, so whatever deficiencies we had already responded so we are just awaiting it.

Abhay Shanbag: Okay and in terms of marketing, you know because it is a OTC product, so what sort of market shares I mean is it going to be single digits for the first year of launch or what sort of numbers can we look at?

Satish Reddy: It is a bit early on this you know so once we will launch we will come back to you with figures on it?

Abhay Shanbag: In terms of Betapharm, can you give any guidance in terms of what sort of revenue growth or decline we could see in the current fiscal?

Satish Reddy: Yeah Prasad clearly said that we expect flat revenue growth this year.

Abhay Shanbag: And last question in terms of CAPEX what sort of CAPEX plans you have?

Umang Vohra: It is about 125 would be roughly the range that we are guiding.

Abhay Shanbag: 125, this is million dollars, okay fine thank you.

Nimish Mehta: In FY2010 do you expect any special launch besides omeprazole and fondaparinux in the continuation of Imitrex?

GV Prasad: No I do not think so.

Nimish Mehta: Okay. And your guidance of 10% includes Imitrex five months sales right?

GV Prasad: Yes.

Balaji Prasad: Hi thank you. My question was on the CAPEX that you have just guided partially for 125 million for FY2010 I just wanted to see what it would be going for in FY2011 would have to spend more on your biologics facility what kind of outlook we have on the CAPEX for the next two years?

- GV Prasad: I think in the next few years we will spend at the rate of around \$100 million a year. We are seeing increasing volume growth in finished dosage and the APIs as well as in the biologics.
- Balaji Prasad: Do you anticipate anything which could like cause a sharp spike in FY2011 or FY2012 be it your biologics or ...?
- GV Prasad: There could be a spike actually in FY2010 depending on how rapidly we are able to build our SEZs, we would like to create protective capacities for both our APIs and finished dosage facilities.
- Prashant Nair: Yeah hi, I just needed some clarifications on the tax rate, have you written back any of the deferred tax liability on these intangibles that you wrote off?
- Umang Vohra: Yes we have Prashant, we have done that.
- Prashant Nair: So how much would that be?
- Kedar Upadhye: Rs 100 Crores or so, it will be 31% of the intangibles which has been written down, so roughly 100 Crores.
- Prashant Nair: Okay and on a normalized basis, if you exclude the impact of Imitrex, I mean purely on a normalized business basis, what would your effective tax rate be roughly?
- Umang Vohra: It will be close to 10%.
- Prashant Nair: And is that the number we should look at going forward is it or will it go up.
- Umang Vohra: No I think going forward we would probably be in the 15% range.
- Krishen: Yeah Hi thank you, two questions, one can you give us a better sense as to when you expect the Indian operations to turn around, you talked about taking some steps, is it fiscal 2010, fiscal 2011 timeframe? And then I have a second question you talked about inventory levels in some of the other emerging markets being reduced, can you just tell us how

much you thought they came down and you know when did you start seeing a pick up and are they back at normalized levels, thank you?

Satish Reddy: Okay on the Indian market, like you have said, one more round of this de-stocking instead of much smaller levels then we had in the beginning of this whole initiative right so that one more round is to be done. So we expect the turnaround to start happening from Q2 onwards that is what we are seeing. So from that point onwards I think we should get back to rates which will be above industry growth rates that is the target for India. And I think your second question was on the inventory I think in emerging markets, so Umang you want to take that.

Umang Vohra: Yeah the inventory decreases that we have seen are on the raw material side and because of the Chinese Olympics there was an increase in these inventories. So we have reduced them as time has gone by in the last two quarters.

Krishen Sud: I thought you were implying that some of your end market sales were also impacted by inventory reductions, so I guess I heard wrong. Okay thank you.

Nimish Desai: Yeah just a follow up on the comment made by the management on the Para IV opportunities in US. It was mentioned that some opportunities should not be viewed as just one off and they are more sustainable in nature, would you classify omeprazole and Arixtra® in that category?

GV Prasad: Omeprazole would be a three player market, the innovator, Perrigo, and us for quite a while, because anybody entering now would need that amount of time maybe at least two years to get through their goal, two to three years. So that's good in a long run. In terms of fondaparinux the challenge is the technology and the patents, and it is a very significant effort in terms of synthesizing fondaparinux. And we do not believe there will be a lot of players in this product, we have not heard of anybody even filing any DMF or anything on this.

Nimish Desai: Okay by hypothetically if somebody were to file today what is the minimum timeframe according to you which will be required for them to enter the market?

GV Prasad: It is a normal process, with a one year approval and then you launch, but we have not heard of any effort in that area or anybody succeeding in making this product.

Nimish Desai: Okay thank you.

Nitin Agarwal: Hi good evening. On Betapharm I just wanted to confirm that if distinctly about 100 odd sales people left in the business?

Satish Reddy: Yeah.

Nitin Agarwal: And you know with the model, the way the business is changing do we still see a need for this kind of a large sales force to be around?

Satish Reddy: Now see the sales force also gets reconfigured a bit compared to what it was in the past, where it was primarily calling on physicians so some portion of it still continues to do that because of the new product launches the others are kind of reoriented towards pharmacy.

Nitin Agarwal: So you see this like a sustainable kind of a number that is going to be there.

Satish Reddy: It will reduce in the future there is no doubt about it that is for meeting the current needs so there will be reduction in the future.

Nitin Agarwal: Okay fine, thank you.

Sally Yanchus: Yes hi, two questions, first on Russia CIS market, you mentioned your sales were up 16% volume of 11, but the market was down a little bit. I am just curious did you gain major share in that market or what is going on in Russia, is it pricing is weak or just explain a little bit what is going on in the Russia and CIS market, and my question on the Indian market is that is it still a high priority focus for your franchise?

- Satish Reddy: Indian market is clearly an important portion of a franchise, right so at the current level of sales and growth potential that this market offers which is in high double digits. So this is something which will continue to remain as a priority for us, right. So I think on the Russian part of it, Umang if you can just talk about this portion.
- Umang Vohra: I think you may be seeing the effect of price increase in the growth that we have registered in Russia and this has been because as the Ruble devalued we also increased our prices. So you are seeing the effect of price increase in that as well.
- Sally Yanchus: Just back on India, what roughly is your gross margin on Indian sales now if you disclose that and what's your target to get to ...?
- Satish Reddy: No we don't disclose by country margins.
- Kailash Rajwadker: You mentioned about calibrating your investments, in your initial remarks, to reduce the volatility in earnings, could you just elaborate on this, how are you going to reduce your investments? What was estimated earlier because you had mentioned CAPEX of 125 million which is higher than 87 million which you have spent in FY2009?
- GV Prasad: Yeah this is not in terms of investment per se it is about spend in R&D. So if you see we have done several high risk R&D initiatives in the past, we had a deal with SkyePharma to develop an inhaler, and we had several such initiatives, we are reducing our exposure to such high intense, high risk, high investment and high spend initiatives. Also on the NCE front, we are capping our spends and going forward we are trying to reduce the spend and also make the entire proprietary products self sustainable, I think it will take us a few years to get there maybe two to three years, but beginning this year, you will see progress on that front.
- Kailash Rajwadker: So R&D expenditure which was 6% of your net sales would come down by what like 3% to 4%?

GV Prasad: No I do not think you should look at it that way. The 6% R&D includes R&D in product development in generics, API and several other things. The component of risky R&D in that will come down, but R&D with greater definitiveness will go on.

Kailash Rajwadker: Okay you also mentioned about reorganization of your research ...?

GV Prasad: That we will announce shortly we cannot speak today about that.

Kailash Rajwadker: But you are looking at bringing an investor in it?

GV Prasad: No, it is an internal reorganization.

Kailash Rajwadker: I see, okay fine. Thank you.

Rajesh Pherwani: First question, I just wanted to know what kind of share are you looking at in omeprazole OTC?

GV Prasad: Too early to say that.

Rajesh Pherwani: But is it going to be in double digits or ...?

GV Prasad: It is too early because we have not launched the product, we still do not have regulatory approvals yet.

Rajesh Pherwani: Okay and currently in the OTC market you have certain products, what kind of shares you have in those products?

GV Prasad: I think we have revenue around \$20 million it is a collection of products so I cannot give you market shares by product

Sameer Baisiwalla: Yeah thanks. If you can just share with us your efforts to take Reditux to other emerging markets where do we stand on this?

GV Prasad: I think we are working in a few emerging markets, we are in the registration cycle; we should see launches in FY2010.

Sameer Baisiwalla: Okay. And I think you mentioned something in the context of PSAI business that there are a few innovator customers over there, if you can just elaborate on that.

GV Prasad: So I can just give you an example without naming the product, innovative companies are using combinations growth engines, taking older products combining it with their NCEs and launching them with synergistic effects. So we are on some of those new drug applications as a source of some of the older APIs, so that's the business that I was referring to.

Sameer Baisiwalla: Okay. And we see this part getting scaled up in the current fiscal.

GV Prasad: Yeah we see a good traction there, we have a track record of supplying APIs successfully for a long time, we have special IP positions on some molecules, so some of these certainly will bear fruit.

Sameer Baisiwalla: Okay thanks.

Neelkanth Mishra: This is on biologicals, much of the CAPEX in my view over the past maybe two or three years and expected CAPEX for the next couple of years is expected to be in biologicals ...?

GV Prasad: No not at all.

Neelkanth Mishra: No, so what will be the total CAPEX that we should expect say by the end of this year FY2010...?

GV Prasad: See the current CAPEX is largely to support our PSAI and global generics businesses, enhancement of capacities, enhancement of facilities some of those. There was a small investment in biologics, we have taken approval for a \$20 million+, maybe \$20 to \$25 million investment in biologics that is what will happen over the next year or so, it is all for existing businesses.

Neelkanth Mishra: Okay so total spend on biologic capacity so far would be you know \$30 to \$40 million as such?

GV Prasad: No, not even that much, could be closer to \$20 million or even \$15 million.

Rajesh Vora: Satish mentioned in the initial remark about you know the product Imitrex which is sumatriptan, you expect a good market environment until 1<sup>st</sup> week of August, are there any particular things that can change that scenario?

Satish Reddy: We do not think so .

Rajesh Vora: Okay, if Prasad could answer, out of our 18 FTFs the good thing Reddy's have done in the last few years is in terms of finding a difficult to synthesis and interesting opportunities where you could have multi-year upside and are starting with this year, you expect them to rollout. Out of the remaining 18 FTF that you have in the pipeline would you like to give us some idea or color as to are there any few more in that basket?

GV Prasad: Most of them are patent challenges. We are not sharing specific details of the opportunities at this time.

Rajesh Vora: Yeah sure, without naming are there, I mean sure there could be standard 180 day exclusive kind of opportunities, but are there multi year sort of upside opportunities...?

GV Prasad: Unlikely, in the 18 unlikely.

Rajesh Vora: Okay, sure that is all. Thank you so much and all the best.

Bhavin Shah: Well thanks for taking my questions, just two quick questions. So this 16.5% volume growth by Betapharm you think you can possibly scale that up in the next year.

GV Prasad: Volumes will go up. Volumes are continuously going up actually.

- Bhavin Shah: Right. And in North American business if I were to remove the one time sumatriptan and Shreveport revenue contribution, I believe the business is grown plus 30% do you think that that is possibly going to go up now.
- GV Prasad: As far as, that I think should sustain itself that level of growth.
- Nitin Agarwal: Sir have you booked any licensing income during the year?
- Satish Reddy: It is marginal I do not think it is significant.
- Nitin Agarwal: Okay sir. And secondly on Betapharm what is the revenue which is there in Euro terms which we recorded for the year against the \$26 million EBITDA?
- Umang Vohra: 150million.
- Nitin Agarwal: So \$26 million EBITDA against 150 million Euro of top-line.
- Umang Vohra: That is right.
- Surjit Pal: Thanks for taking my question; I just wanted to know that what is the latest status in your NCE business, especially balaglitazone?
- GV Prasad: Balaglitazone I think we are expecting results by end of next quarter in the Q2 or early Q3. This is a study which will help us know if there is differentiation in terms of weight gain. And based on that we will see what we can do forward but during this quarter, we have filed three new INDs and you know that is significant achievement in terms of research.
- Surjit Pal: Are you planning to do any kind of comparative study with the existing product as far as balaglitazone is concerned...?
- GV Prasad: Yes it is being done. The current study is a comparative study.
- Bino Pathiparambil: If I heard correctly the EBITDA in Germany was \$26 million right?
- Umang Vohra: Euros 26 million and \$36 million approximately.

Bino Pathiparambil: Okay and what would you be looking for this year?

GV Prasad: Yeah I think we do not want you to look at individual countries, we want you to look at the entire business as one, because it is a business which is supported by the shared infrastructure, shared management, and it is really a global business. And we would like you to move away from individual country EBITDAs to overall global generics level the profitability.

Kedar Upadhye: Thank you all the participants and the IR Desk will be available for responding to any other queries. Thank you.