Dr. Reddy's Laboratories Limited
FY07 Results Conference Call
May 18, 2007

Moderator: Good evening ladies and gentlemen. I am Prathibha, the moderator for this conference. Welcome to Dr. Reddy's Laboratories fourth quarter fiscal 2007 Q&A conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, we will have the question-answer session for participants connected to the SingTel bridge followed by the Q&A session for participants at WebEx International Bridge, and then a Q&A session for participants connected to WebEx India. I would now like to hand over the floor to Mr. Nikhil Shah of Dr. Reddy's Laboratories. Thank you and over to Mr. Shah

Nikhil: Thank you, Pratibha. Good morning and good evening everyone and welcome to Dr. Reddy's earnings conference call for the fourth quarter and full year ended March 31.

We hope you've all had a chance to review our press release which was issued earlier this evening. The results are also posted on our Web site on the home page under the quick links icon. To ensure full disclosure, we are conducting a live web cast of this call and a replay of the call will also be available on our web site soon after the conclusion of the call. Additionally, the transcript of this call will be made available on our web site at www.drreddys.com under the quick links icon.

Please note that all discussions and comparisons during the call will be based on USGAAP numbers and the IR desk will be available to answer any query relating to the Indian GAAP immediately after the conclusion of the call.

To discuss the results, we have on the call today, GV Prasad, our Chief Executive Officer, Satish Reddy, the Chief Operating Officer of the company, and Saumen Chakraborty, our Chief Financial Officer.

Before we proceed with the call, I'd like to remind everyone that the safe harbor language contained in today's press release also pertains to this conference call and the webcast. I would now like to turn the call over to GV Prasad, our Chief Executive Officer.

GV PRASAD, Chief Executive Officer

Thank you, Nikhil.

I would like to thank all the participants for joining us on the call today as we discuss Dr. Reddy's results for the full year ended March 31st.

I am pleased to come back to you to report on what has been the best performing quarter this year for Dr. Reddy's. Our performance this quarter once again demonstrates the strength of our base businesses. It also reflects on our ability to successfully capitalize on opportunities to maximize the value for the company [either as an API or generic] as is evident in the success of ondansetron and sertraline

Over the last couple of years, we have remained committed to building a sustainable growth engine at Dr. Reddy's. And, I am pleased to say that we have made significant progress as is evident by the quality of our performance in the last two years and the various initiatives that we are pursuing in each of our businesses toward building a sustainable and profitable global generics business while investing in our innovation-led businesses for the long-term.

The year 2006-07 has been a great year for several reasons. We benefited from an unusual concentration of significant product opportunities across businesses.

As a company,

- We more than doubled our revenues to cross 1.5 billion dollars in revenue. More importantly, we have achieved the 1 billion dollar mark even after excluding the upside from authorized generics,
- We generated record profit after tax of 216 million dollars and record cash flows from operations of 274 million dollars,
- We launched several key products capturing significant market shares,
- We improved our market ranking in some of our key markets and therapeutic segments,
- We expanded our geographical footprint, and

- More importantly, we continued to expand our product pipeline in each of the businesses.

While the upsides from authorized generics and exclusivity in ondansetron contributed significantly to the overall performance, what is truly satisfying is that even after excluding the contribution from these opportunities, we witnessed a strong growth of 91 percent in revenues led by growth in the underlying businesses as well as acquisitions. Let me recap the key drivers of growth for the year,

- We continued to strengthen the foundation for growing our base businesses of API and finished dosages for the rest of the world. These businesses have been growing in strength, consistently, quarter after quarter for the last several quarters, delivering superior performance. They continued the momentum through out 2006-07 as is evident from the strong growth in revenues as well as significant expansion in gross margins. This was largely driven by a combination of new product launches, volume growth in key markets and good opportunities in sertraline and rabeprazole. Together, these businesses contributed 37 percent of the full year revenues and 43 percent of the full year gross profits respectively. This reflects the dominant contribution of these businesses to the overall company's revenue and profits.

- The finished dosage business in the US, as you already know, performed exceedingly well crossing the 500 million dollars in revenue. Obviously, the most significant launches were the authorized generics products, ondansetron and fexofenadine. The magnitude of contribution from these products validates the investments made over the last several years in building a robust pipeline for the US generics business.

- Our finished dosage business in Europe achieved revenue of 223 million dollars led by the successful integration of betapharm into Dr. Reddy's.

- In our custom pharmaceutical services business, we achieved significant scale with revenues of 153 million dollars well over the 100 million dollars we had guided in the past. This was made possible by the successful integration of the operations, customers and product portfolio from our acquisition.

While there were several successes in the past year, we also faced some challenges. Most notably, was the healthcare reform in the German marketplace and the consequent competitive actions resulting in significant lowering of prices. Despite the market reforms, Germany will continue to be on of our key markets as it presents interesting growth opportunities for us. We are driving several initiatives to capitalize on these opportunities while building a strong and sustainable business for the long-term and I will discuss these initiatives in detail later in my presentation.

Now, let me provide an update on the R&D engine at Dr. Reddy's. As I mentioned in the previous calls, the significant investments made in the past have started to unlock significant value this year onwards. We will continue to make investments that we believe ultimately will yield similar results in future as we have seen in 2006-07.

We recognize that today we are operating in a highly challenging and competitive global generics environment. And in response to that, we are continuously investing in building a well-balanced portfolio of unique products as well as competitive products with the least cost position. During the year, our R&D engine was really busy as we significantly expanded our pipeline across businesses. We had a total of 33 ANDA filings during the year, which is the highest that we have filed so far in any single year taking the total filings till date to over 100 and the pending ANDAs to 69 addressing a value of about 56 billion dollars in innovator sales. Of these 69, 31 involve patent challenges of which we believe we are first-to-file on at least 18. We also filed 23 drug master files in the US taking the total to 101. We also filed 46 drug master files in other markets. We filed 6 product dossiers in Europe and over 430 dossiers in several other markets such as Russia-CIS, South Africa, Australia, Brazil and New Zealand to name a few.

Let me now turn the call over to Satish for a more detailed review of the performance by business.

SATISH REDDY, Chief Operating Officer

Thank you, Prasad. Good Morning and Good Evening to everybody on the call.

Prasad in his discussion touched upon the key performance highlights for the full year. Let me discuss the key growth drivers for each of our businesses. Saumen will present the key highlights for the fourth quarter followed by a detailed review of key P&L and balance sheet items.

Overall revenues more than doubled to 1.5 billion dollars as against 563 million dollars in the previous year. The significant growth in revenues was accompanied by expansion in gross margins after adjusting for the impact of authorized generics. The growth in revenues was driven by

- The full year effect of acquisitions in Germany and Mexico, which together contributed about 310 million dollars in revenues,
- Authorized generics products of simvastatin and finasteride – together they contributed 367 million dollars in revenues,
- Strong growth in the underline base business Increase in the US finished dosage revenues to 181 million dollars excluding the revenue from authorized generics from a low base of 38 million dollars in the previous year. This growth was largely

Let me now cover the key highlights in our global finished dosage businesses starting with the US,

Revenue in the US increased to 548 million dollars from a low base of 38 million dollars in the previous year. Over the last few years, we faced the problem of lack of new product launches to support the increasing investments in building a robust pipeline for the future. These investments have now started unlocking value with 8 new launches during the year. As a company, we are always pursuing various options to maximize the value and improve the launch predictability of our generic assets. This is clearly evident from the way we approached our portfolio in 2006-07. We launched fexofenadine in April 2006 following the expiry of the exclusivity for Barr/Teva combination. Ondansetron is another example, wherein we successfully navigated the patent litigation and were entitled to 180 day exclusivity well supported by precedence. Simvastatin and finasteride

were examples where we participated in the exclusivity period through the authorized generics route. We also settled with GSK on sumatriptan. This settlement will enable us to launch the product ahead of the patent expiry in Feb 2009. The other launches were straight forward launches on patent expiry. While we have been creative in commercializing our products, over the last two years, we have also established our presence in the market place building relationships with a broad base of customers and demonstrated our ability to capture significant market share in the range of 15 to 20 percent for most day 1 launches. Lets look at our market shares for some of the launches during the year. Fexofenadine has been a very good launch for us and though we captured 11 percent market share, we have consciously managed the trade-off between market share and margins to our advantage. We launched simvastatin under own ANDA following expiry of the exclusivity in end December and I am pleased to share that despite additional competition, we continue to enjoy 24 percent market share which definitely speaks to the strength of our sales and marketing capabilities in the US. Let me now discuss the pipeline that we are building for future growth. As Prasad just mentioned, we filed a record 33 ANDAs during the year including 9 partnership products. More than the numbers, our constant effort is to improve the quality of the pipeline by building a good mix of less competitive products as well. We filed some interesting products in this category during the year. We are also supplementing our internal development efforts by pursuing partnerships with third parties to extend our growth into other dosage forms. During the year, we partnered as many as 25 products representing different dosage forms addressing innovator sales of 4.5 billion dollars. The product mix includes both competitive as well as less competitive products with commercialization starting from 2007-08 onwards. Despite the challenging market dynamics, we continue to remain confident of building critical mass by ensuring that we cover a significant share of the available opportunity in terms of patent expiries across multiple dosage forms, capturing our fair share of the market for all day 1 launches. Further, as we source the APIs for most of our products internally, we will be able to provide significant cost synergies as well. During 2007-08, we expect to launch anywhere between 15-20 new products which is almost the double of what we launched in 2006-07. This will present challenge on the supply chain side and we are prepared to ensure product launches on time, every time.

Let me now cover the finished dosage business in the rest of the world markets, which is by far the most consistent and profitable business within Dr. Reddy's today.

Revenues in this business increased by a strong 24% to 286 million dollars from 230 million dollars in the previous year. This was driven by growth in all our key markets but most notably in India and Russia. The growth in revenue was accompanied by expansion in gross margin to 70 percent of revenues as against 69 percent in the previous year which is by far one of the strongest gross margins in the industry. The expansion in margins was driven by a combination of growth in key brands, higher proportion of revenues from international markets and the commencement of production at our new facility in baddi, Andhra Pradesh which enjoys exemptions on value added tax. International revenues contributed 48 percent of revenues in this business up from 44 percent in the previous year. The strength of this business is demonstrated by the fact that while the revenue in this business represents about 19 of the overall company revenues, in terms of gross margin the contribution is far greater at about 28 percent and this despite significant upside opportunities in other businesses.

Let me now discuss the key growth drivers in India and Russia separately. In India, we continued the growth momentum and recorded a strong growth of 16 percent. Revenues were at 149 million dollars up from 128 million dollars last year. As we have discussed in the previous calls, over the last three years, we have increased our focus on the India market and implemented several initiatives resulting in a significant turnaround in our growth rates. Just to list a few,

- We stepped up the new product launches – both new brands as well as line extensions. Our recent launches of Omez-D, Razo-D along with Leon rank among the most successful launches in the industry.

- We increased the total size of the field force to 1,400 and reorganized our sales force adding new divisions to bring in greater customer focus on key therapeutic segments and brands.

As a result of these initiatives, we have made a sharp turnaround from lagging industry growth rate to now exceeding industry growth rate. Let me share some of the market statistics for the last 12 months -

- Our top 2 brands of Omez and Nise achieved annual sales of 20 million dollars each growing significantly ahead of the market growth rates,
- During the year, new product launches contributed 6 million dollars to total revenues. Further, the launches in the last 3 years together contributed 21 percent to our revenues in 2006-07,
- Our overall market share has increased from 2.31 percent to 2.35 percent,
- We increased market share in our key therapeutic areas of pain management, gastro-intestinal and cardiovascular,
- We are ranked as the fastest growing company among the top companies in terms of prescription growth and
- We are also ranked the second fastest growing company in the top 10 growing ahead of the industry growth rates as per ORG IMS MAT March 2007.

We have strong reasons to believe that we can sustain this growth momentum in the coming years through a combination of new product launches, focus on tapping growth in the rural markets, increase in productivity of sales force, new divisions for driving greater customer focus.

Moving on to Russia, our revenues increased by 35 percent to 81 million dollars compared to 60 million dollars last year. The Russian market has been growing consistently over the last few years with sales having almost doubled in the last 3 years. Russia is the most profitable market for Dr. Reddy's, contributing significantly to the high gross margins that we enjoy in this business. We have been driving growth in this market through a combination of the following -

1. Volume growth in our key brands through marketing campaigns and increasing the field force,
2. Entering into new segments such as the hospital and the over-the-counter segments,

3. Investments in building a robust pipeline for the future while leveraging our infrastructure for incremental growth opportunities

Let's look at some of our achievements in this market in the last 12 months,

- Significant volume growth in our key brands in the retail segment,
- The OTC and hospitals segment have grown significantly contributing about a quarter of the total revenues,
- Launched 6 new products after a long hiatus
- We improved our market ranking to 15th position in the retail segment from 2^{4th} position a year ago,
- We also increased our market share in the retail segment to 5.41 percent as per MAT Dec 2006 reports and

Currently, we are growing much faster than the market growth rate in the retail segment. Given the multiple growth platforms for this market, we remain confident of sustaining double digit growth rates in the coming years as well.

Let me now discuss our performance in Europe.

Revenue in Europe increased to 223 million dollars as against 56 million dollars. Of this, Germany contributed 186 million dollars as against 16 million in the previous year for about 28 days. UK contributed 36 million dollars as against 40 million dollars in the previous year.

Let me talk about our performance in Germany. Over the last 18 months, the government has been driving significant reforms to reduce the healthcare costs. In early 2006 the AVWG was introduced which reduced reference prices, banned free goods and introduced the concept of co payment waiver. The industry reacted by reducing prices in excess of those mandated by the new reference prices and the insurance funds tested the concept of co payment waiver for almost 79 substances. Subsequently in October 2006, the insurance funds further leveraged the power of co payment waiver to include additional substances and the industry followed again with a reduction in prices. As a result of several of the reforms and the industry's reaction to the reforms, the pricing in

Germany for our portfolio has come down significantly [in the range of 30-40%]. Despite the significant price erosion, we managed to hold on to the sales in value terms through a combination of key new product launches and higher volumes in existing products. New product launches in the last 15 months in-fact have contributed to more than 15 percent to the overall sales in 2006-07. In addition, the market for some of our key products is also growing providing opportunity for volume growth. On the gross margins, we ended the year with a gross margin of about 65 percent. We also managed our costs adding to the significantly positive EBITDA performance for the full year.

Let me also comment on the developments in the fourth quarter. We had discontinuity in sales for a short period on account of supply shortages from our key supplier Salutas, which is a part of the Sandoz group. As there was a disagreement on the contract terms, we re-negotiated the supply agreement. The new contract is on a non-exclusive basis providing us the flexibility to source products from other suppliers. As a trade-off, we agreed to the increase in the procurement prices for the products supplied by Salutas. While this may result in a short-term impact on margins, it will be more than off-set by the improvement in margins and resulting volume gains that we will be able to drive by sourcing products from other sources.

As a result of the reforms and consequent price erosion, we took some non-cash impairment charges at the year end. Saumen will present the details in his presentation. Prasad in his concluding remarks will discuss the current market conditions and opportunities and the long-term outlook for Germany and other markets in Europe.

Let me now move on to the API business,

Revenue in this business increased significantly by 44 percent to 274 million dollars from 191 million dollars last year. This was largely driven by key product opportunities in sertraline and rabeprazole. This also resulted in a significant expansion in gross margins to 39 percent from 28 percent in the previous year. This is the 7th successive quarter of year-on-year growth on the back of several initiatives, which we have discussed in the past. We have increased the breadth of our product portfolio both in terms of filings as well as launches. We have more than doubled our DMF filings in the US and now have about 101 DMFs. We have also deepened our relationships with the top tier generic players as well as regional customers. This is evident from the significant value that we

have derived from some of our recent launches in sertraline and rabeprazole. We are looking at ways in which we can increase the value proposition for our customers through a combination of IP based opportunities, value-added services and access to a broad & competitive portfolio. We are also aggressively pursuing cost improvements in business to constantly improve our competitiveness. With 7 successive quarters of consistent growth behind us, we remain confident of continuing the growth momentum into 2007-08 as well.

Finally before I hand over the discussion to Saumen, let me also discuss our performance in the custom pharmaceutical services business. This business has performed exceedingly well largely driven by the performance of the business acquired in Mexico in 2005. We closed the year with 153 million dollar in revenues. The product mix was also quite healthy resulting in gross margins in the upper range of 29 percent. Excluding the contribution from the acquisitions, the revenue base more than doubled to 28 million dollars from 12 million dollars last year. We are strengthening the R&D, manufacturing and business development capabilities within this business given the strong long-term potential. We are also aggressively driving the business building agenda to broad-base our relationships with large set of customers including large pharma companies. As we continue to drive growth in this business, we will continue to explore new business opportunities to leverage the capabilities and infrastructure that we have built over the years in various part of the company thus maximizing the value for the company.

With this detailed overview, I will now hand over the discussion to Saumen to discuss the financials in detail.

SAUMEN CHAKRABORTY, Chief Financial Officer

Thank you, Satish.

A warm welcome to all of you. Let me share the key highlights of the fourth quarter and then move on to the full year financials.

- This year we broke away from the previous few years of fourth quarter jinx. In-fact, the fourth quarter has been the best performing quarter of even otherwise the memorable financial performance for the whole year. This was driven by more than just the ondansetron opportunity.

- Year on year we grew the revenues by 124 percent to 361 million dollars

- The gross margin for the quarter was exceptionally higher at 63 percent of revenues as against 42 percent of revenue in the corresponding period of last year. This is relatively higher compared to the previous quarters as well. The significant expansion in the margins was largely driven by the high margins enjoyed by ondansetron during exclusivity, higher margins in the API and CPS businesses. Also, please note that in the previous quarters, we recorded significant sales from authorized generics products which earned significantly lower margins resulting in lower margins at the company level.

- Ondansetron recorded revenues of 62 million dollars during this quarter capturing 62 percent of the market despite competition from Sandoz in the form of authorized generics. Even after excluding revenues from ondansetron, the balance portfolio in the US generics business itself recorded revenues of 63 million dollars. In fexofenadine, we held on to our market share during the quarter without any additional competition.

- API revenues increased by 86 percent to 90 million dollars from 48 million dollars, driven by higher sales in Europe and supplies of rabeprazole.

- The fourth quarter revenue in the finished dosage business in the rest of the world markets was at 64 million dollars. Last year the revenues were at 48 million dollars. That's a growth of 32 percent. India which historically has a subdued fourth quarter reversed the trend this year. Q4 has given a strong performance of a 17 percent

growth with revenues at 34 million dollars. In Russia, the base in the last year was very low and hence our growth is at 81 percent. But quarter-on-quarter, the revenues were down due to the seasonality factor. The CIS markets registered a strong growth of 70 percent with revenues of 6 million dollars.

- CPS revenues were at 45 million dollars compared to 24 million dollars last year. That's a massive 88 percent growth. Bulk of this has come from Mexico. Even India performed exceedingly well with a growth of 67 percent to 10 million dollars.

- The R&D spend for the quarter was at 20 million dollars which has increased by 4 million dollars over last year. Even sequentially, the R&D spend was higher due to the bunching up of bio-studies during the quarter. This is also reflected in the fact that 10 out of the 33 ANDAs were filed during the quarter.

- The SG&A spend is at 81 million dollars. Even though it is higher than last year, compared to the previous quarter it is lower.

- On the forex front we recorded a gain of 5 million dollars

- During the quarter, we earned a net interest income of 2 million dollars driven by the interest income on the ADR proceeds and significantly lower short-term debts for a large part of the quarter.

- The profit after tax before the year end impairment charges is well above 100 million dollars. I will cover the impairment charges slightly later.

Moving to the full year, as both Prasad and Satish mentioned this has been a truly exceptional year for Dr. Reddy's with record sales and profits. I feel extremely privileged to present in my first year as CFO of this company. While Satish has discussed the revenue by business in detail, let me move on to other items in the P&L starting with gross margins

For the full year, the gross margin was at 47 percent of revenue as against 49 percent last year. This year has seen an unusual concentration of large opportunities cutting across businesses, which have driven the revenue as well as margins. While some of them are truly exceptional and may not recur next year. Excluding such exceptions, the margins in the underlying businesses have expanded compared to the previous year.

This has happened because of the product mix and the benefit of value added tax exemptions at our new facility in Baddi.

Moving on to SG&A, the full year spend is at 326 million dollars which is 76 percent increase over the previous year record of 86 million dollars. But if we exclude the SG&A from the acquisitions, the increase in SG&A is only 33 percent. The key components of increase are the manpower costs, shipping costs, linked primarily to sales growth and increase in selling expenses in the finished dosage business for the rest of the world markets. Excluding the impact of authorized generics and ondansetron exclusivity, SG&A ratio to sales for the full year is at 30 percent as against 33 percent last year which is a significant reduction.

Moving on to R&D, for the full year, the gross R&D spend was at 76 million dollars. This includes the benefit from R&D recognition of about 19 million dollars. It also includes the investments in our bio-generics and innovation pipeline as well. I think we have one of the most productive R&D engine for the level of output that we discussed. The R&D spend on revenue adjusted for authorized generics and exclusivity revenues works out to little over 7 percent.

Moving on to the forex line item, our treasury team has done exceedingly well given the appreciation of the rupee in the past few months as we ended the year with a overall forex gain of 3 million dollars.

Moving on to amortization, the full year number is at 36 million dollars. This includes the normal items relating to intangibles in Germany, Mexico and Spain.

For the full year, we recorded a non-cash write down of intangibles of 41 million dollars. This includes 5 million dollars related to the assets acquired under the trigenesis acquisition. It also includes 36 million dollars related to write-down of intangibles related to the betapharm acquisition. It has happened due to the healthcare reforms and consequent industry reaction leading to significant price erosion, we had to take a write-down on the intangibles related to some of our products.

On the taxation front, we recorded a tax provision of 27 million dollars which accounts to about 11 percent of pre-tax profits. If you recall for the first nine months the tax rate was at 13 percent. During the fourth quarter, on the write-down of intangibles in betapharm,

we benefited from the reversal of deferred tax liability on the intangibles created at the time of acquisition. We also benefited from the reversal of valuation allowance in our US subsidiary. Further, the effective tax rate was also lower due to high margin sales of ondansetron from our 100% export oriented unit which is completely exempt from tax.

As a result, we ended the year with a profit after tax of 216 million dollars as against 38 million dollars in the same period last year. The profit after tax would have been higher to the extent of impairment charges adjusted for tax effect.

Let me now discuss the key balance sheet items. On the back of an exceptional year, we generated about 274 million dollars from operations. As a result we repaid 137 million dollars of short term borrowings and about 44 million dollars of long-term debt. We also invested about 104 million dollars in capital expenditure. About 126 million dollars locked in restricted cash was freed up during the year adding to the cash flows. In addition, we raised about 233 million dollars from the follow-on equity issue. We ended the year with cash and cash equivalents of about 417 million dollars. As at the end of the year, our short-term borrowings were at 74 million dollars and the long-term debt was at about 500 million dollars. Currently our debt to equity ratio is at about 59% down from almost 100% a year ago.

With this overview, let me now request Prasad to make his concluding remarks.

GV PRASAD, Chief Executive Officer

Thank you, Saumen.

As you all know the healthcare industry is facing new challenges. The demand for prescription is rising while the sources to pay for them lag far behind. As the population ages and the need to bring more people into the healthcare system increases, the industry is struggling to find cost-effective solutions. This is not only the case in US and Europe but in many other regions as well. These factors coupled with the growth of the emerging economies should significantly and continuously increase the demand for generics far into the foreseeable future.

This presents significant opportunities as well as challenges for Dr. Reddy's. We believe that we are well positioned to maximize value for our shareholders based on the strong foundation we have built over the last several years. We have a truly integrated business model and we continue to build strong businesses and best-in-class capabilities across the entire value chain from APIs to generics to innovation. The benefits of our unique integrated model is also becoming evident with our R&D engine supporting many more markets and becoming more efficient as it is able to leverage these efforts over more geographies. Today, we are developing and filing products in all major markets across the globe. We are also supplementing our internal development efforts with alliancing and partnerships to expand our growth into other dosage forms. More importantly, we are also investing in creating a global oncology and bio-generics portfolio, which I believe will provide significant growth opportunities in the future. We are making significant investments in scaling up our manufacturing and supply chain capacities and capabilities to global standards. This will help us support our commercial organizations in all the major markets with timely product deliveries at the least cost. In terms of our market expansion agenda, we have established strong commercial platforms in key markets of India, Russia/CIS, US, Germany and UK. We are strengthening our presence in other markets of South Africa, Brazil, Mexico, Australia, New Zealand, Italy, Spain among others. We are pursuing business development opportunities more aggressively than in the past to accelerate the growth momentum in various businesses. While we lay the path for building a dominant global generics business with the aspiration of getting into the top 5 position in all our key markets in the medium term, we are also focused on building our innovation led businesses to bring

new chemical entities and differentiated products to the market place in the longer-term. To sum up, generics will continue to drive growth in the near-term, oncology and biologics will drive growth in the medium-term and the innovation pipeline will drive growth longer-term enabling our transition into a discovery-led global pharmaceutical company.

Let me now focus on our efforts toward building a dominant generics business model across key European markets. Let me begin with Germany. The integration of betapharm into Dr. Reddy's has been quite seamless and successful and I am quite pleased with the progress of the integration. Let me now talk about the new regulations implemented with effect from April 1 of this year. This new regulation called GKV-WSG intends to empower the insurance companies to enter into discount contracts with suppliers of generics. The active ingredients covered by these contracts will be benefited by preferred prescription by doctors or a preferred sale in pharmacies. Our assessment of the legislative changes is that it presents an interesting opportunity to participate in the new model. Let me explain the various initiatives that we are pursuing to stay competitive and in fact build a sustainable and profitable business for the long-term.

- The negotiation of a new non-exclusive supply agreement with Salutas provides us with the opportunity to source the products from other suppliers as well. Of course, there is a immediate short-term trade-off with higher costs but we believe this will be more than offset by the volume growth over time,

- We are pursuing an aggressive plan for transfer of key products to Dr. Reddy's manufacturing network by end of 2007-08 which will enable us to drive volume growth on guaranteed supplies and help in significant margin expansion,

- We are aggressively expanding our product pipeline – both through internal development efforts and through partnerships. We are targeting between18 to 20 filings during 2007-08 and will leverage these products for all major European markets either through our own commercial organizations or through licensing opportunities,

- We are ensuring a steady flow of new product launches as we continue to expand the breadth of our product offering – we expect to launch about 10 new products in 2007-08. In addition, we are also pursuing unique opportunities which could provide potential upsides in the near-term,

- We are reorganizing our sales force to focus on physicians, pharmacies as well as insurance companies. However, we will continue to adapt our cost structures to the market changes.

- I would also like to highlight that on the back of the strong brand equity of both beta institut as well as betapharm, we have contracts with insurance companies covering about two-thirds of the German population. This provides a very strong foothold as we look forward to actively participating in the tenders.

We may be faced with challenges in the immediate short-term, but I strongly believe in the long-term potential of Germany which continues to remain a key market for Dr. Reddy's. We believe that we are well positioned to utilize our large portfolio, our cost-efficient supply chain infrastructure and regulatory expertise in betapharm, our existing strong commercial organization and our equity in the market to build a sustainable business in this market in the long-term.

Let me briefly discuss the outlook for 2007-08. Satish has discussed the outlook for the other businesses in great detail and I would only like to reiterate what he said. Adjusting for the upsides in 2006-07, we are pretty confident of driving profitable growth in each of these businesses. In India, we expect to grow ahead of the market growth rate. We expect Russia to deliver double digit growth rate. In the CPS business, the growth over the high base in 2006-07 will be more moderate for the next year. In terms of gross margins, the margins will be in the range of 50 to 52 percent. R&D spend is likely to be in the range of 7 to 8 percent of revenues. SG&A spends are likely to maintain the same ratio to sales as in 2006-07 adjusted for authorized generics.

Before I conclude, let me now talk about our oncology and bio-generics pipeline. In India, we are among the leading players in the oncology segment. In the recent years, we have made investments in pipeline and infrastructure to extend our pipeline into other markets as well. Our cytotoxic facility is already operational and we have started filing ANDAs out of this facility. For the European markets, we have a marketing arrangement with Pliva for some of the markets. Currently, we have more than 10 oncology projects under global development.

I think all of you who have followed our industry know that there have been significant developments on the legislative and regulatory fronts in the US and EU markets in the biologics area. In the US, the bill on bio-similars has been introduced and it is gathering lot of traction. In Europe, the EMEA has defined the guidelines for some of the easy bio-generics and we view this as the first step towards establishing the regulatory pathway for more complex bio-generics. Over the last few years, we have been making investments in building the R&D teams and infrastructure to address this global opportunity. I am pleased to share that we have built a strong R&D team and processes with the capability to develop a large pipeline and meeting the most rigorous demands of regulators around the world for biologics. Currently, we believe that we have one of the deepest biologics pipelines in India. The launch of a bio-generic version of Rituxan, probably the first such bio-generic in the world, validates our capabilities in bringing complex bio-generics in to the market place. In the medium term we will focus on maximizing the opportunity in the rest of the world markets. At the same time, we will continue to actively monitor the developments in the US and European markets for extending our pipeline into these markets.

Let me now focus on our innovation business. Let me begin with an update on our lead molecules and then I will talk about the new leadership that we announced recently. We and our partner Rheoscience intend to shortly commence pivotal studies for Balaglitazone both in the US and EU. As part of the preparatory work for these studies, we have requested and expected to have end of Phase 2 meetings with both EMEA and US FDA within the next few months. Clinical studies will commence once we have received feedback from the regulatory agencies on our proposed registration strategy and package. On our oncology compound DRF 1042, the European orphan committee has approved the orphan drug status for osteocarcoma. We expect a ruling

from EMEA on the orphan drug status by end of May. In the US, we filed the application for orphan drug designation in April. If you may recall, last year we partnered with Argenta, a discovery company based in UK to develop products for treatment of COPD. We have now identified a lead compound which is undergoing toxicology studies. Let me now talk about the new leadership for our innovation driven product development. We announced the joining of Dr. Rajinder Kumar few weeks ago. Raj will be responsible for discovery as well as clinical development for our entire innovation-based pipeline. He brings to Dr. Reddy's significant experience in discovery, drug development and commercialization in the developed markets. We have built a strong discovery organization and the experience of Raj in clinical development fills an important gap in our innovation business. We will continue to expand our pipeline, balancing efforts pursuing both precedented as well as first-in-class molecules to address significant unmet medical needs as we transition into a discovery-led global pharmaceutical company.

To sum up, we believe that we have laid the foundation for creating a strong and highly competitive global business model – a diversified global portfolio of businesses, geographies and products capable of delivering sustainable and profitable long-term growth.

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

Interactive Q&A Session

Matthew Dublin: I was wondering if you would be kind enough to walk through the strong gross margin for the fourth quarter?

Saumen Chakraborty: The gross margin for this quarter was at 63% of revenue. Ofcourse, ondansetron which had revenues of $62 million and that has a huge gross margin, and we had a very high gross margin in API as well as CPS business.

Sameer Baisiwala: Just two questions. First is on I-Venture deal, out of the 69 pending ANDAs how many of these represent partnership with I-Venture and when would the pay back begin?

Nikhil Shah: Of the 69 there are almost 30 ANDAs which are partnered with I-Venture and the pay back has started.

Sameer Baisiwala: Okay. The second question is related to ondansetron, how many months of inventory pipeline fill up is already there in the market?

GV Prasad: We cannot share that kind of information Sameer.

Pawan: Can you just give us the gross margin numbers segmental Q4 and full year?

GV Prasad: I mentioned earlier the gross margin for Q4 was at 63%.

Pawan: Segmental, API and the formulations generic.

Nikhil Shah: We will give it to you, we don't have it right now. We will give it you separately Pawan.

Pawan: You have given the number for your operating margin, 12-14% for FY08, would you be able to give an overall number for the top line growth in FY08?

GV Prasad: We are not giving guidance on that.

Pawan: Okay sure. API business, Satish, you mentioned that you hope to see growth even in FY08, is that excluding sertraline or rabeprazole or is it in the overall number?

Satish Reddy: Overall, we expect growth because of rich pipeline of products that we have developed and we would be able to launch products, so we should be quite comfortable.

Mishra: Hi! On betapharm you mentioned that you lost some days of sales, how many days of sales did you have and what should we take us proper run rate going forward?

GV Prasad: I don't think we lost days of sales, but we lost sales due to some supply issues with Salutas, we not get enough products

GV Prasad: Revenues for the whole year was $186 million.

Mishra: our revenue was $186 million and we expect to grow over this.

Mishra: Yeah, you expect growth, but did you also mention a growth percentage?

GV Prasad: No, we didn't.

Mishra: Okay, and what was the gross margin for betapharm this quarter and do we expect any more write offs on the intangibles going forward?

GV Prasad: The answer to your second question is no, but we are not sharing gross margin at that level.

Abhay: Good evening, this is Abhay from Deutsche Bank. Just two questions - as a follow-up to Neelkanth's questions, on German business, what has been the EBITDA margin and how much of a turn around is possible in FY08?

GV Prasad: We have not shared the EBITDA margin, but overall we delivered a margin overall for the full year we delivered EBITDA around Euro 30 million.

Abhay: And we expect to grow on top of that.

Abhay: Sorry, I couldn't hear you. You did a EBITDA of 30 million euro for the entire fiscal in Germany?

GV Prasad: Yes.

Abhay: And you would expect to grow on that?

GV Prasad: Yes.

Abhay: Okay, the second thing is in terms of rabeprazole, any sort of numbers in terms of how much revenue was done?

GV Prasad: We are not sharing the exact numbers.

Visalakshi: Hi, thank you. My question is continuing on betapharm, you talked about contracts with insurance companies covering two thirds of the German population. Could you quantify this, what does this number in terms of number of contracts and how has this …..

GV Prasad: We are not sharing that granularity with you.

Visalakshi: Also can you give some more clarity on this transfer of products to India operations?

GV Prasad: Yeah, top 10 products that betapharm is selling in Germany, we have moved them into our own supply network and with process having started the first product should be coming from India in next few months, so we expect to shift a large portion of the production into Hyderabad by the end of the year.

Visalakshi: Sir, can we interpret that your negotiations with Hexal is complete in all respects and there wouldn't be any more supply issue etc.?

GV Prasad: Yeah, we certainly hope so. We have completed our contracting with them. Don't expect any further issues.

Visalakshi: Okay and can we expect synergies from this you know any kind of cost savings because of this transfer of products to India?

GV Prasad: Yes, I think we mentioned that in our speech. Costs will come down as a result of shifting the products into India.

Visalakshi: And it will come into fiscal 08 itself?

GV Prasad: Yes.

Visalakshi: Okay, thank you. Finally on Balaglitazone, I didn't get the update.

GV Prasad: There was no specific update except for a fact that we are in the process of discussing with the EMEA and the FDA. We are awaiting, after the feedback we will have a more definitive time line.

Mishra: This is more a clarification. Immediately after you mentioned balaglitazone on your speech, you actually mentioned another drug as well and which I just couldn't hear you, could you repeat that part of the speech again please?

GV Prasad: I think it was DRF1042.

Mishra: Oh! DRF1042, so was there an update on that?

GV Prasad: No specific update except for the fact that we have applied for orphan drug application.

Mishra: I am very sorry, I couldn't hear you again.

GV Prasad: We have filed for an orphan drug application

Mishra: Great thanks. One last question, any updates on what is happening on the moxifloxacin law suit?

GV Prasad: There is no update.

Abhay: Yeah this is Abhay again. Just a update on fexofenadine, when do we see more competitors entering the market?

GV Prasad: We hope not very soon, we saw that Ranbaxy had tentative approval but I think final approval is still some months away.

Abhay: Okay, because even Mylan has a tentative approval for quite some time, and they have received the final approval for 180 mg, but we haven't seen them in the market, so any sort of update on Mylan?

GV Prasad: We haven't really seen them in the market place. I think certainly Ranbaxy has a tentative, so we are not sure when they get there.

Abhay: Okay and sir the other thing was in terms of license fee, there has been a significant increase in license fee in the fourth quarter, so is there anything specific which has happened?

GV Prasad: I don't think anything specific has happened, it just may be a classification of cost.

GV Prasad: Abhay, you are referring to the Indian GAAP?

Abhay: Yeah.

GV Prasad: Yeah, on the Indian GAAP as we have mentioned in the earlier calls as well that specifically relates to transaction between the parent and the subsidiary, which is also detailed in the notes to the account.

Abhay: Okay fine, I will just have a look at that. The other point was in terms of the savings in tax rates, going forward into future years, what sort of tax rates do we see coming, the company getting into?

GV Prasad: We hope to keep it under 15%.

Abhay: And the capex has been quite high at about 450 crores, is there anything significant that you would want to highlight in this call?

GV Prasad: I think we have increased our production capacity on on finished dosage facility very significantly, so almost doubled capacity there. We have invested in creating a new R&D facility, a new global distribution center, and several projects in API. So overall we have been adding to the delivery capacity of the organization and this will continue for another 18 months.

Abhay: So what sort of guidance for capex do we have for this year?

GV Prasad: $100 million.

Prashant Nair: Yeah, could you provide an update on perlecan and the four molecules that are in the pipeline out there?

GV Prasad: There is no major development. No milestone has occurred as of now.

Prashant Nair: Okay. Last question from my side, would you be able to share the innovator sales for the 18 para fours that you believe you are first to file?

Nikhil Shah: It is close to $10 billion Prashant.

Mishra: Hi, just one last question on rabeprazole, was this for the Aciphex in the US or was this something else?

GV Prasad: It was related to Aciphex.

Mishra: So, there are no penalties associated with the fact that finally the innovator won the law suit?

GV Prasad: No.

Rajesh Vora: Good evening and congratulations for the highest profit ever. Firstly, on the base generics business in the US markets, company has done extremely well in FY07 versus FY06 and also there has been a lot of momentum on filing products without exclusivity as well, without patent challenge. Would you like to give some idea as to what sort of product launch activity we do expect over the next couple of years and how you want to grow that business which is sort of sustainable going forward?

GV Prasad: Our plan is to launch at least 6-8 products on a ongoing basis every year, and our development effort is foremost on capturing at least 80% of the expiry of patents over the new few years and the combination of this will give an indication of how we are preparing for the US market.

Rajesh Vora: Okay, and in terms of base business profitability how is it going and is there a lot of synergies further to be unlocked going forward?

GV Prasad: I don't think we talked about synergies, but certainly we expect launch a number of products, as you know in generics business prices do come down and if you don't do anything prices will come down, so we are focused on creating port folio of products which gives us breadth as well as products which have limited competition. Through a combination of this, we intent to make our businesses strong and sustainable.

Rajesh Vora: Okay and the last thing on you are sitting on about $430 million of cash and 570 debt, is there something you are looking aggressively on the acquisitions side or would you be looking to repay the debt, what would be the idea over the next 12-18 months?

GV Prasad: We would probably bring down debt to a certain extent, but we are also looking at opportunities globally. I don't know if you want to use the adjective aggressively.

Abhay: Just two questions. One is on authorized generics, I was under the expectation that simva once you get approval, you would do your own simva rather than continue with authorized generic. Is there any specific, because it seems to continue in the fourth quarter also?

GV Prasad: No we are doing our simva.

Abhay: So why is there authorized generic sales in the fourth quarter?

GV Prasad: There is one dose form where we are using Merck's product finasteride 5 mg.

Abhay: Okay, fine. The other thing was on the oncology and biologics, what sort of time frame do you see when you will be able to launch the first oncology drug in the US or the European markets?

GV Prasad: I think in the next 18-24 months we should see launches.

Abhay: Okay, so you would have a set of may be 5-10 products in next years from your side in the US/European markets?

GV Prasad: In the next 3 years timeframe.

Prashant Nair: I just needed a couple of clarifications. First was on rabeprazole API sales, I did not quite catch what you said, was it related to the Aciphex US opportunity or was it not?

GV Prasad: It was.

Prashant Nair: Okay and the second one was on gross margins, I believe towards the end of your comments you mentioned that gross margins for the next year would be in the 50-52% range?

GV Prasad: Yes, that is correct.

Prashant Nair: Okay, thanks. Is that for the overall business or is that including betapharm and all business put together?

GV Prasad: Overall, at the company level.

Sameer Baisiwala: Just one follow-up question on 1042, what would be the implication of your application for orphan drug status both in Europe and US?

GV Prasad: There would be an accelerated route to approval at much lower cost because the trail would be smaller. You get in to the market faster, and then we would expand the market for the product.

Sameer Baisiwala: Okay, so any time lines that you can share with us, and do you start with phase one or do you?

GV Prasad: I think it is too early to give time line.

Sameer Baisiwala: Okay, and just following on rabeprazole, since the court ruling came some time in May, do we expect that in April-May you continued to do some sales?

GV Prasad: No, once the court ruling came we didn't supply anything.

Sameer Baisiwala: Yeah, but the court ruling came in May, I am saying during April, because this is March quarter, so in April-May?

GV Prasad: No, not in April-May, this was in the last quarter.

Agarwal: I just wanted to ask one thing sir, you mentioned during your presentation about the treasury team doing well in terms of having very least impact in falling dollar scenario. Can you kind of enlighten as to what kind of future do you see in terms of dollar? Is it likely to further fall down or what kind of strategies as a company are you adopting for the same?

Saumen Chakraborty: No, I am not making any comments in terms of how dollar is going to behave vis-à-vis rupee. I can only tell you that our business is of very global nature today. There have been quite a large part of our costs incurred in various global operations and in terms of treasury operations they have taken significant care, so this year we have done extremely well to even register a forex gain, but going forward if the rupee is continuing to behave the way it has been behaving over the past few months, definitely that will put some pressure on margins.

Nikhil Shah: Thank you Rita. We would like to thank all the participants for joining us in the call today and for further clarifications please feel free to get in touch with the IR desk either on phone or on email. Thank you.