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Second Quarter Fiscal 2007
Earnings Call Transcript

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Nikhil Shah

Thank you, Monali. A warm welcome to all of you. I am Nikhil Shah, the Investor Relations Officer at Dr. Reddy's. Thank you for joining us on the call today as we discuss Dr. Reddy's financial results for the second quarter fiscal year 2007. By now, you should have seen the press release as well as the additional financial disclosures, which were released earlier today. The results are also posted on our Web site on the home page under the quick links icon.

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

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

Now, the safe harbor statement… I would like to remind you that the discussion and analysis during the duration of the call might include forward-looking statements, as defined in the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such factors include, but are not limited to, changes in local and global economic conditions, our ability to successfully implement our strategy, the market acceptance of and demand for our products, our growth and expansion, technological change and our exposure to market risks. By their nature, these expectations and projections are only estimates and could be materially different from actual results in the future.

And now to get started, let me turn the call over to GV Prasad, our Chief Executive Officer.

GV PRASAD, Chief Executive Officer

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Thank you Nikhil.

I would like to thank all the participants for joining us on the call today as we discuss Dr. Reddy's results for the second quarter of fiscal 2007.

The second quarter has been a great quarter for us at Dr. Reddy's. The authorized generics opportunity in the US has contributed significantly to the overall performance. However, I am equally pleased to share that we have sustained the strong growth momentum in our core businesses, as we continue our efforts to realize the full potential of the underlying businesses of API and finished dosages for the rest of the world markets.

In fact, if you look at the key drivers of our performance over the last few quarters, together they reflect the strength of our integrated business model. Our core businesses of API and Finished Dosages for the rest of the world markets have been growing consistently. Our planned investments in strengthening the pipeline and infrastructure for key markets have started yielding significant results. This is evident from the significant growth in Russia, the sharp turnaround in our performance in India and unlocking of the value of our generics pipeline in the US. Our expansion initiatives into new markets and new businesses are now showing their strength with both betapharm and Mexico adding to the overall growth of the company. In particular, I would like to highlight the significant improvement in the performance of betapharm during the second quarter, which underscores our belief in the longer-term potential of betapharm.

Now, let me give you the headline numbers. Revenues for the quarter are at 436 million dollars as against 126 million dollars for the same period last year. Gross profit margin is at 41 percent of revenues. SG&A is at 80 million dollars. R&D investment for the quarter is at 9 million dollars, net of income from R&D partnerships. Profit after tax is at 61 million dollars compared to 19 million dollars last year. This translates to an earning per share of 39 cents as compared with 13 cents for the same period last year.

Let me now discuss the key highlights of the underlying growth drivers starting with our core businesses.

The most satisfying aspect of our performance in the core businesses of API and Finished Dosages for rest of the world markets has been the consistent year-on-year growth for the last 5 quarters. There has been significant improvement not only in financial results but also pipeline expansion, customer engagement, enhanced productivity and geographic expansion.

In the API business, we achieved a growth of 36 percent during the quarter on the back of significant contribution from sertraline. The quality of the product mix improved resulting in the expansion of gross margin for this business.

During the quarter, the finished dosage business for rest of the world markets continued its growth momentum delivering a very healthy 19 percent growth. This was largely driven by the performance of the key markets of India and Russia. As per the ORG IMS August Moving Annual Total data for the Indian finished dosage industry, we have out-performed the industry average on volume growth and track the industry on value growth, which is a very positive indicator of the growth ahead of us.

The performance of these two businesses once again validates the strength of our core businesses, which continue to deliver sustainable growth year after year driven by a unique combination of geographies as well as products.

In the US, during the quarter, we consolidated our market share in the 3 key product launches. Combined revenues from simvastatin and finasteride were about 170 million dollars. We improved our market share for simvastatin to about 25 percent and finasteride to about 16 percent. The exclusivity for both these products is expected to end in December 2006. Fexofenadine contributed about 18 million dollars in revenue adding to the base portfolio. While we have thus far benefited from the delay in additional competition, it is likely that we will see new launches in the second half. We have managed the trade-off between pricing and market share quite well, which has resulted in relatively higher margins for these products.

In our CPS business, which largely focuses on the strategic outsourcing needs of large pharma companies, the business continued its momentum into the second quarter as well. We achieved revenue of 36 million dollars with gross profit margin of about 29 percent. The acquisition in Mexico has paid off quite well and based on our achievement

in the first six months, we are well on track to cross the **100 million dollar revenue mark in this fiscal year.**

Now, let me talk about our performance in Germany. Following the introduction of healthcare reforms and the price cuts by all the significant players in July, there have been concerns on the outlook of betapharm. Added to this, in the first quarter, we were at EBITDA break-even situation with the full impact of price cuts being factored in and also due to the one-time shelf stock adjustments. Against this performance, I am quite pleased to share that in the second quarter, betapharm has achieved significant improvement in its performance. We achieved revenue of 56 million dollars as against 44 million dollars in the first quarter. We improved our gross margins to 58 percent as against 53 percent in the first quarter. As per Insight Health MAT September, a market research firm in Germany, for the last 12 months period, betapharm registered volume increase of about 14.4 percent as against a decline of 2.7 percent for the entire industry. The recent product launches have definitely helped to sustain the overall performance. I look forward to the continued improvement in the performance of betapharm in the next two quarters as we continue to push our sales teams to drive volumes and optimize costs in the near-term while pursuing the strategic initiatives for strengthening the long-term potential of betapharm, which I will share later on in my presentation.

A strong pipeline is the 'key' to deliver long-term sustainable growth. At Dr. Reddy's, we have made significant investments in the past, in creating a strong pipeline and this continues to be an ongoing commitment. We continue to expand our pipeline in each of our businesses quarter after quarter. This quarter, we filed 8 ANDAs and 6 Drug Master Files globally. Following the collaborations with Rheoscience and Argenta, I am happy to announce yet another joint development and commercialization deal with ClinTec for DRF 1042, our lead oncology compound. With this introduction, let me hand over the discussion to Saumen for an update on financials.

SAUMEN, Chief Financial Officer

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

Prasad in his discussion has covered the key performance highlights. Let me cover the financials in detail.

Revenue for the quarter was at 436 million dollars compared to 126 million dollars in the same period last year. The acquisitions contributed 87 million dollars in revenue. Simvastatin and finasteride together contributed 170 million dollars in revenue. Excluding the contributions from acquisitions and authorized generics products, the base revenue grew by 42 percent to 179 million dollars as against 126 million dollars last year. Let me now briefly explain the key growth drivers in each of our businesses.

In the API business, revenue increased by 36 percent to 63 million dollars from 46 million dollars last year. This growth was largely driven by the contribution from sertraline. Driven by an improved product mix, the gross margin for the quarter expanded significantly to 41 percent of revenue as against 32 percent of revenue in the same period last year. As Prasad mentioned, this level of performance clearly demonstrates the underlying strength of our API business.

In the Finished Dosage business for the rest of the world markets, revenue was up by 19 percent to about 67 million dollars as against 56 million dollars in the same period last year. This growth was primarily driven by 16 percent growth in India as well as an 18 percent growth in Russia. In India, during the quarter, we launched 2 new products while in Russia, we launched 4 new products including 2 OTC products. The OTC and hospital segment in Russia has contributed close to 27 percent of total revenues for this market. Outside of Russia, the other markets of Ukraine, Uzbekistan, Venezuela and Romania performed exceedingly well adding to the overall growth.

In the US Generics business, overall revenues were at 198 million dollars as against 6.5 million dollars last year. As I mentioned earlier, simvastatin and finasteride together contributed 170 million dollars in revenue. Fexofenadine, the other key contributor, added another 18 million dollars in revenue. If you exclude the contribution of these 3

products, the base has increased to 10 million dollars from 6.5 million dollars last year. This reflects the growth in the underlying portfolio.

Our performance in Germany, as Prasad pointed out, has significantly improved compared to the first quarter. Revenue improved from 44 million dollars in the first quarter to about 56 million dollars in the second quarter. More importantly, the gross margin has improved to 58 percent of revenues as against 53 percent of revenue in the first quarter.

Combined revenue from UK and Spain are at about 10 million dollars the same level as last year. While we have achieved volume increases for our key products of omeprazole and amlodipine maleate, the softening of the prices over the last few quarters has resulted in a flat performance year on year.

On the CPS business, overall revenues were at 36 million dollars as against 3 million dollars last year. During the quarter, we added a new product to our Mexico operations which contributed significantly to the revenue. The overall gross margin was at 29 percent of revenue.

So, to close the discussion on gross margins, the consolidated gross margins of the company were at 41 percent of revenue as against 52 percent of revenue.

On the costs side, SG&A expenses are at 80 million dollars as against 38 million dollars in the same period last year. Adjusted for authorized generics, SG&A expenses were at 30 percent of revenue. R&D investment during the quarter was at 9 million dollars. This included the benefit of 4.7 million dollars of income under ICICI Venture deal and 2.7 million dollars from Perlecan Pharma.

Amortization expenses are at 9 million dollars in line with first quarter number. This includes the amortization related to betapharm, Mexico and other items.

During the quarter, we had a net interest expense of 8 million dollars as against a net income of 4 million dollars last year.

The tax provision for the quarter is at about 16 million dollars or 21 percent of our pre-tax profits. This is primarily due to the significant increase in profitability, profits from the authorized generics deal partially offset by the benefit of deferred tax liability on amortization of intangibles.

Profit after tax is at 61 million dollars as against 19 million dollars last year.

The net operating working capital has reduced to 229 million dollars as of end of September from 233 million dollars as at the end of June quarter. The receivables have increased only by 4 million dollars despite significant increase in revenues during the quarter due to improved collections, particularly on the AG products. The increase in inventory has been more than offset by the increase in payables thereby resulting in the overall decline. With major products already launched in the first half, the working capital requirement is likely to normalize in the second half of the year and we have put in place measures that will enable us to manage working capital efficiently.

With this overview, I will now hand over the discussion to Prasad to make the concluding remarks.

GV PRASAD, Chief Executive Officer

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Thank you, Saumen.

Summing up the first half, the key highlight definitely has been the strong performance of the underlying core businesses. Excluding the contributions from the acquisitions and the authorized generics opportunity, the revenues have increased by a strong 38 percent compared to the same period last year.

At the company level, we recorded overall revenues of 742 million dollars with profit after tax of about 91 million dollars in the first half. This compares with revenue of 248 million dollars and profit after tax of 27 million dollars for the same period last year. The core businesses of API and finished dosage for the rest of the world markets have performed exceedingly well driven by improvement in the quality of the markets as well as product mix. The API business grew by 29 percent on the back of interesting new product opportunities. The finished dosage business in the rest of the world markets grew by a strong 24 percent led by growth in India and Russia and well supported by the performance in the other international markets. The authorized generics opportunity in the US contributed combined revenue of 243 million dollars to the overall revenue base. Fexofenadine, launched in April this year, has contributed 29 million dollars in revenue. The two acquisitions added 157 million dollars in revenue. We settled the Immitrex® patent challenge with GSK, which provides us an opportunity to launch the product as an AG well ahead of the patent expiry in February 2009. We also entered into a joint development and commercialization deal with ClinTec for DRF 1042 our lead compound in the Oncology segment. In the first six months, we filed 15 ANDAs and 10 Drug Master Files globally.

While on our performance in the first half, I would like to highlight that this performance was well supported by the benefit of delay in additional competition in fexofenadine, substantial part of the exclusivity period revenues from simvastatin and finasteride and a lower R&D spend. Also, please note that historically our growth in the second half has been relatively lower compared to the first half, specially in India and Russia. The R&D spend is likely to be higher in the second half compared to the first half. Having said that, in the second half of the current fiscal year, we are looking forward to several new product introductions across various businesses including the potential launch of ondansetron in the US.

Thinking of the future, I am excited about the growth opportunities as well as the initiatives that we are driving in each of our existing businesses. I am equally excited about executing on the challenge of commercializing the innovation-based businesses of Discovery and Specialty. This would mark our transition to the innovation space, which would help sustain long-term profitable and sustainable growth.

In the **API business**, there has been a significant improvement in our performance as is evident from the consistent growth in the last 5 quarters. This is the result of many of the initiatives, which I 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 also deepened our relationships with the top tier global generic players as well as regional customers. We are looking at ways in which we can increase the value proposition to our customers through a combination of IP based opportunities, value-added services and access to a broad & competitive portfolio. To give you an example, we are patenting globally, many of our novel processes to provide unique opportunities to our customers. We are also aggressively pursuing cost improvements to constantly improve our competitiveness. Based on our inherent strengths, we are confident of achieving a leadership position in the global API industry.

In the **Finished dosage business for the rest of the world**, the track record is similar to that of APIs with 6 quarters of consistent growth. Our performance in India and Russia over the last several quarters has been quite remarkable and I would like to discuss our initiatives in these markets.

As many of you would recall, couple of years back, we were lagging the industry growth rate in India. This was on account of a combination of factors; there was a general slowdown in the industry growth. There was also uncertainty due to the impending product patent regime and the marketplace was extremely competitive for new product launches. We were in fact losing market share for some of our key brands. We were also trying to rationalize our portfolio for improving margins and we lacked a strong pipeline of launches to arrest these declines. We also experienced some discontinuities as we organized our sales force into various divisions. From that adverse situation, we have made a sharp comeback and this is evident from the most recent ORG MAT figures. Dr. Reddy's volume growth was 17 percent as against the industry

growth rate of 15 percent and in value terms, we tracked the industry growth rate of 16 percent. Let me take a step back and discuss what we have done differently in this market to achieve this turnaround in such a short period of time. We introduced several new products. We consolidated our flagship brands by adding new products to address the requirements of all sub-groups of patients. We increased the size of the field force from 1,100 to the current 1,400. We revitalized the leadership team and also reorganized our sales force adding new divisions to create greater customer focus. As a result of all these initiatives, today, new products launched in the last three years contribute about 13 percent to the total revenues. Our recent launches of Razo-D and Omez-D are among the top 10 most successful launches of 2006. We have 7 brands in the top 300 including Omez and Nise, which figure in the top 20. In fact, our flagship brands of Omez and Nise are likely to achieve the 20 million dollar revenue milestone this year and this compares with 14 million dollars about 3 years back. Over the next few years, a combination of new product launches, increase in the productivity of our field force and greater focus on global in-licensing effort for rest of the world markets will ensure that we continue to outperform the industry growth rate.

The other market that I would like to discuss is Russia. This is definitely one of our consistent and best performing markets by any standard. Driven by the strong economic growth of the Russian economy and the government buying program, the industry is witnessing strong growth rates. Realizing the long-term potential of this market, over the last few years, we have made significant investments in several areas. We strengthened our detailing capabilities by doubling our field force to 184. We also invested in a number of marketing and promotional campaigns. We made investments in opening up new lines of business in OTC and hospital segments. In the first six months, these segments have together contributed 24 percent to total revenues, which is quite an achievement in a short span of time. As a result of the above, we have nearly doubled our revenue base over the last 3 years. In the first six months, we have achieved revenue of 40 million dollars as compared to 40 million dollars for the whole of fiscal 2004. Despite our strong geographic expansion globally, Russia continues to be one of our key markets and we expect to continue our growth momentum in this market.

Outside of Russia, the other international markets which present interesting growth opportunities include the CIS region, South Africa and Brazil. In the CIS region, we are gaining good market share in many of the markets. Among these markets, Ukraine is our largest market which has more than doubled revenues to 9 million dollars

in the last 3 years. The other interesting market is South Africa. Currently, we sell 3 products and have 17 products pending registration. Our lead product in this market is again Omez, which is the largest selling omeprazole product in South Africa. In Latin America, Brazil is still an important market for us. We are re-entering the market with a renewed focus; we have hired a new management team and have launched our lead biotech product Grafeel in this market.

In the US generics segment, as we have discussed in the past, we are committed to building a critical size, which is not only sustainable but also profitable. Toward this objective, we will continue to drive many of our initiatives over the next few years even as we make significant progress during this year with our new launches. We will strive to maximize the value of our current pipeline of 56 pending ANDAs in terms of ensuring that we launch all our products on day one. We are also focusing on broad basing our customer relationships to maximize the opportunity of our future product launches. In addition, we are also looking at ways in which we can reduce the uncertainty on many of our filings involving patent challenges. We are engaging into active discussions with the innovator companies around patent settlements as well as authorized generics opportunities. Our recent settlements of Immitrex & Propecia and the AG deal with Merck are the outcomes of such a strategy. In addition, we are also actively pursuing partnerships with external partners to expand our portfolio and secure near-term commercialization opportunities in the areas of injectables, liquids, ophthalmics, oncology and niche products with limited competition. We are currently working with 4 to 5 partners in these segments.

Europe is the other important geography for Dr. Reddy's and it has now assumed strategic importance to our overall long-term growth objectives. We have put the leadership team in place and have strong local management teams to support our aspiration of building a significant pan-European presence over the next few years. The acquisition of betapharm has provided us a strong foothold in Germany, which is the second largest generics market globally. In addition, we have on the ground presence in UK and Spain. We are also looking at expanding our presence into other markets including France, Italy, Portugal and Poland.

Let me now talk about our ongoing efforts in Germany. Immediately following the acquisition, we worked out a detailed integration plan covering several critical areas;

people practices, regulatory & business development processes, finance and governance among the other processes. I am pleased to share that the integration is progressing seamlessly with benefits visible already. Over the last few months, our teams in India and Germany have started executing on several initiatives. Some of these initiatives will start delivering results immediately while the others are focused on further strengthening the long-term potential of betapharm. The short-term benefits are already visible in the improvement in our performance for the second quarter. The other important initiative is to create a robust pipeline for building a dominant pan-European presence over the next few years by integrating the existing as well as future pipeline opportunities in each of our existing markets with the pipeline opportunities out of India. We are evaluating opportunities for expanding our presence into other niche segments in Germany. We are also driving our business development initiatives with a common agenda of accelerating growth in the key markets of interest to Dr. Reddy's – Germany, UK, Spain, France, Italy and Portugal.

As to the **CPS business**, as I mentioned earlier, we are well on track to achieve a critical size of over 100 million dollars this year. The acquisition in Mexcio has paid off quite well enabling us to successfully broad-base our customer profile particularly innovator pharma companies. Based on the strategic value created by the acquisition and the strength of our growing customer relationships, I am quite confident of the long-term outlook of the CPS business.

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 on the strength of the following key elements

- Consistent growth in revenue and profits in our core businesses of API and finished dosage business for the rest of the world markets,
- Strong global product development platform both for the generics as well as innovation-based businesses,
- Significant growth opportunities in the US and European generics segment,
- Well defined geography and business expansion strategy through a combination of in-house pipeline, partnerships and strategic acquisition opportunities, and

- Business development initiatives to accelerate the growth momentum in our various businesses.

To pursue these growth opportunities, it is important that we step up our capacities and other infrastructure. Toward this objective, we are making significant investment plans for creating additional capacities, particularly for the generics, API and the CPS business.

Even as we make progress toward building a global generics business portfolio, we will continue to push the innovation agenda in our Drug Discovery, Specialty and Biologics businesses, which will serve as an important bridge as we transition into a discovery-led global pharmaceutical company. We continue to make good progress in expanding the pipeline in these businesses.

Let me begin with Specialty. We are currently working on a product for treatment of onychomychosis that is fungal infection of the nails. Simultaneously, we are evaluating opportunities to commercialize this business in the near-term through a combination of in-licensing or acquisition of in-market products.

In addition, we are also pursuing unique product opportunities with strong differentiation based on convenience, efficacy or mode of delivery. These are different from the traditional products as they are currently not available in the market in these forms. The red heart pill, which is a polypill and currently under clinical development, is one such example. I believe that these product ideas could provide unique opportunities for commercialization in many of our major markets.

As many of you may be aware, biologics represents a significant opportunity globally. Europe has made significant progress on establishing a pathway for approving biogenerics. The US appears to be catching up with the recent introduction of the legislation on biosimilars. At Dr. Reddy's, we are making calibrated investments in building the R&D infrastructure and we currently have a pipeline of 10 products in various stages of development for commercialization in the rest of the world markets as the first step.

Let me talk about our Discovery pipeline. The data from the carcinogenicity studies completed for Balaglitazone have been positive. We are expecting the final report in the next few weeks. The teams at Dr. Reddy's and Rheoscience have already started discussing various aspects of phase III trial design and all going well we should soon be commencing the phase III trials for this molecule. As we get prepared to move

our first molecule into Phase III along with our partner, we will continue to make calibrated investments in expanding the pre-clinical pipeline in our focus areas of cardiovascular and metabolic disorders into new discovery platforms. We will continue to expedite the clinical development up to Phase IIa and seek-out licensing and co-development opportunities through a combination of Perlecan and other joint development and commercialization deals to realize the full potential of the NCE pipeline.

To conclude, it is the strength of our **integrated business model** that makes us excited about the future of Dr. Reddy's as we transition into a **billion dollar** global pharmaceutical organization.

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

Q&A session

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Shubham Majumdar: Hello, congratulations to the entire management team at Dr. Reddy are for a brilliant set of numbers. I have three questions. One was with regard to betapharm, you are clearly back on track with regard to betapharm in terms of the revenue momentum and the gross profit margins there, can you just tell us what is the profitability like at the EBITDA level?

Nikhil: In terms of EBITDA, when compared to the first quarter where it was breakeven situation, because of the expansion in the gross margins it has been positive in the second quarter.

Shubham Majumdar: But you will not give out the exact EBITDA margin in the quarter is it?

Nikhil: Yes, we are not giving specific details.

Shubham Majumdar: Okay, but should we read it as a significant improvement or should you read it as a marginal improvement over the 0% that we registered in 1Q.

GV Prasad: I would say it is significant.

Shubham Majumdar: Okay and any kind of color or guidance you would like to throw for the quarters ahead in the next couple of quarters.

GV Prasad: We did $56 million and we continue the performance, we expect this performance to continue at that level.

Shubham Majumdar: But qualitatively in terms of the elasticity in the volumes that you are seeing post the price cuts have been taken in last quarter, what is the kind of elasticity we are seeing in volume off take for the generics as a whole in the market and for your products in particular?

GV Prasad: We are seeing volume growth at betapharm. So, we have not quantified that elasticity as such but we are seeing volume growth.

Nikhil: Shubham, this is Nikhil again, just to add you know we already kind of talked about the volume growth that we have achieved as per the market research statistics, it was 14.4% for the last 12 months for betapharm as against the industry decline of 2.7%.

Shubham Majumdar: Rolling 12 months is it?

Nikhil: Yes.

Shubham Majumdar: Okay. The second question was with regard to US generics and how much of the growth in simvastatin that you see in this quarter will be sustained in the quarter going forward; the simvastatin exclusively gets over in December only?

GV Prasad: We are not able to give you guidance on that because we expect the sales to be tapering down as the patent expiry nears. The sales definitely will be lower than this quarter.

Shubham Majumdar: Okay and post the 180-day exclusivity getting over, are you looking at getting into the generic market for simvastatin for all the doses on your own?

GV Prasad: Yes, we will launch our own ANDA.

Steven: I am just curious about the SG&A run rate going forward, is this quarter as you get run rate in the remainder of the fiscal year. Thanks.

Saumen: May be you can take the first half as the run rate for the second half.

Elliot: Good evening, thanks for taking my question. I did not hear this address in your prepared comment, could you just talk a little bit about the current pricing conditions that you are seeing in the US market place whether or not you think that the pricing pressures have stabilized or there is a little bit deteriorating or whether or not you are actually seeing improvement?

GV Prasad: Generally speaking, the pricing pressure has been intense and that intensity continues for any product which has multiple launches, so we have to constantly look for those unique opportunities whether they are protected through 180 days exclusivity or through technology barriers or things like that. Products which are plain vanilla where there are large number of players, the pricing pressure continues to be very intense.

Nimish Mehta: Good evening everybody and congratulations for a great set of numbers. My first question if you can just run me through the gross margins at different business segment?

Saumen: In API for this quarter it is around 41%, formulation it is 68%, for generic segment it is 36%, and on emerging business segment it is 67%, and for CPS it is 29%.

Nimish Mehta: Okay. My second question is related to simvastatin sales, if you can tell us how much did the simvastatin sales contribute to the overall sales, basically if you can break it up the $170 million between simvastatin and finasteride?

Saumen: No we are discussing it together.

Nimish Mehta: And last quarter you disclosed it I mean broken up fashion, so if you can do that that will be helpful.

Nikhil: Nimish, I will get back to you with the split of the sales between simvastatin and finasteride. The substantial part of that is from simvastatin.

Nimish Mehta: It is from simvastatin.

Nikhil: Yes.

Nimish Mehta: Okay, so and you mentioned that you have achieved market share of 25%, so doing some rough mathematics based on that it seems that the generic market

of simvastatin is more than $2.5 billion, which is not really very digestible given the fact that there have been pricing pressures, so does the sales of simvastatin whatever you have registered takes into account what kind of pricing, some rough cut, I know you are not disclosing pricing, but will that help some charge backs in the next quarter or how is it going to be?

GV Prasad: For the sales that we have recorded, we have fully recorded the charge backs, so we don't expect further charge back on the sales that we have already registered. It was a 3-player market and it has some level of competition.

Nimish Mehta: Okay, can you disclose some of the pricing issues there because 70% of price erosion is what we have heard?

GV Prasad: We don't want to talk about pricing.

Nimish Mehta: Okay. My third question is related to betapharm, is there any new law which is likely to pass by the year end, by this calendar year, which is again targeting some further price cuts, and if yes then what is the game plan for Dr. Reddy on those issues?

GV Prasad: You know in November there is a price cut expected and betapharm has reacted to that by cutting prices ahead of that, beyond that we don't see further price cut.

Nimish Mehta: So this quarter again reflects that the price cuts that you anticipated in November.

GV Prasad: No, it happened in October, so it would not have registered in this quarter. Nimesh, could you keep yourself to one question please because we have large number of participants.

Nimish Mehta: Is there any likely price cuts happening in the Russian market based on the DLO program?

GV Prasad: No, nothing that we are aware of, our brands are all selling at the same prices.

Visalakshi: Could you share your thoughts as to why you are so confident about an ondansetron exclusivity if you get an approval by the end of the year?

GV Prasad: We are first to file on both the patents and we believe that the exclusivity has not triggered so far, and we have just only the approval is between us and getting the exclusivity. Having said that approval could go out few weeks this way or that way, but we do expect based on the FDA latest thinking that you know the summary judgment would not be triggering an exclusivity, so we believe that the exclusivity is preserved for the first to file company.

Visalakshi: Okay does that mean that there is no litigation etc. which is pending that one should expect in the next 1 month or so?

GV Prasad: No.

Pawan: First of all congratulations for the management for solid set of numbers. Did Saumen say that US generics business the gross margin was 58%?

Saumen: We said overall, we don't segment it in any you know US or Europe, we said overall generics, the gross margin is 36%. We said emerging business and that is actually refers to our biotech and oncology that is where the gross margin is at 67% which is more or less in line with formulations.

Pawan: Okay. My question now is for Mr. GV Prasad, basically your CPS business and RoW API sales have been very strong this quarter and but CPS is like you know first half is done 3 billion you said you will cross $100 million, should we imagine/assume that CPS is going to be like a similar number in H2 and RoW API sales this quarter do you think it is a number which would be recurring for the next few quarters?

GV Prasad: For CPS, I think we should be able to do the similar number of the first quarter. The RoW has some seasonality in it usually, and but for that seasonality I think the trend should continue.

Pawan: So 100% kind of a growth and whatever number with the last year this quarter, I mean last year.

GV Prasad: Are you talking about ROW?

Pawan: APIs.

GV Prasad: And in formulations.

Pawan: No, RoW API.

GV Prasad: ROW API has not grown that much, in fact it has de-grown in the quarter.

Pawan: There is some Rs. 1.4 billion, which I saw.

Nikhil: Pawan, you are right, ROW has grown, in fact the North America has de-grown.

GV Prasad: Okay, the sales for the US, RoW because the company in question is able to run primarily for the US it is not RoW sale.

Pawan: So this is sertraline that you spoke about.

GV Prasad: Yes.

Pawan: So are you supplying to the first to file player there?

GV Prasad: Yes

Jesal Shah: Good evening, and congratulations for the excellent set of numbers. I just have actually one question which is on simvastatin, if you can give us some idea about what is your sense of how much is the inventory in the market and whether you see any issues with the charge backs once the product goes completely generic hitting in the third quarter or you made already adequate provisions for that in the current quarter?

GV Prasad: We are looking at this aspect very closely and managing the shelf stock so that the end of the period shelf stock adjustment is not high, so as of now whatever we sold and recorded we have covered all our charge backs to the best of our knowledge.

Jesal Shah: Right, but could you have a sense of how much is the inventory in the market?

GV Prasad: It is a matter of few weeks inventory and we are closely managing that. It is different with different retailers.

Sameer Baisiwala: Just on this simvastatin between Q1 and Q2 should we assume that you have exhausted the sales, which was meant for the entire first 6 months?

GV Prasad: No, the sales continue and we are seeing good sales even in this month.

Sameer Baisiwala: Okay and the last point is on the German price cut which would be effective in October, what is extent of this price cut?

Nikhil: It is about average of 4% for the products which are covered under the new copayment waiver list.

Rahul Sharma: Sir what type of amortization expenses have we clocked so far and what would these our sense that will be able to do and will be able to or going charge in the current year?

Saumen: Every quarter we are putting around $9 million.

Jesal Shah: Just the question on the German market actually, if you can give us some idea about you know what in your view has been the year-on-year growth rate in sales and where do you see the year-on-year movement in the EBITDA margin or at the gross margin where if you can throw some light on that? And then just to continue on that you know actually because it is related I will just ask the same time which is that on the price cuts you know so far whatever price cuts have been taken what does it actually amount to in terms of the as a percentage of the total revenues?

GV Prasad: Okay, I think year-on-year it is about 1% growth in the quarter, so it's relatively flat in terms of overall numbers in spite of the price cuts. Your question, the second part of your question was EBITDA - I mean margins at the gross margin level. The current gross margins are around 58%, for the previous period around the same period it was around 60 and odd something. The last part of your question was what was impact overall impact of that, we are still assessing that, but only a subset of four or five players they have product line has been impacted and that subset was impacted by about 4%.

Jesal Shah: Yeah, this 4% is the new price cuts right, I mean I was actually referring to the cumulative effect of even the first round of price cuts because it was like 24% for a portion of products, so the question is really that as a percentage of …..

GV Prasad: It is in the teens, I don't know the exact numbers.

Neelkant Mishra: Hi, again congratulations on great numbers. I had just one question because Betapharm is I understand clearly a marketing company and given the decline in prices when will we do the goodwill impairment check and should we expect any impact from that?

GV Prasad: I think it is too early to do that and we believe that you know at least a year has to pass before we do that, and this will depend on the outlook of the company, the pipeline and the products and all of that.

Prema Shankaran: Good evening, this is Prema Shankaran, will WalMart entering into the pharmaceutical market will have an effect on the industry?

GV Prasad: WalMart has not entered the industry, they have a chain of super markets.

Nikhil: they have announced a new scheme to kind of attract the customers to the store as such, you know that does not have any impact on the pricing of our products.

GV Prasad: They have announced this initiative of 4 dollars **for 40 day** medication and most of the products that they have announced are already below this level that really does not have an impact on pricing.

Abhay: Yes, sir, regarding market share for simvastatin in US is it 25%, do I get I right or has it gone up by 25%?

Nikhil: No, it is 25% as per the IMS data.

Abhay: Okay, secondly in Germany in the second quarter, I mean there has been a huge increase in sales vis-à-vis the earlier quarter, so is it a seasonal thing or you really you know are stabilized and grown from the earlier quarter?

Saumen: We have grown from the earlier quarter.

Abhay: At the last which again is it EBITDA positive now in German market?

Saumen: Yeah, definitely.

Visalakshi: Yeah, thank you for taking my question. I would like to ask that looking ahead into fiscal 2008 could you share your expectation in terms of you know apart from ondansetron are there any other big ticket launches lined up? I am talking of you know how many products do you expect with limited competition or very little or no competition at all.

GV Prasad: Visalakshi, I wish I knew the answer to your question, because you are asking me how many competitors will be there and how pricing will behave and you know this is impossible to predict specially in the US market. But having said that, I feel very good about our business. I see multiple launches and I see a few upsides but I cannot predict which one.

Visalakshi: Okay and one final thing for Allegra, you know with the 30 month stay having expired this month, what is the expectation in terms of numbers of players likely to be in the market for Allegra, generic Allegra.

GV Prasad: I really don't know the answer to this but as of now we have not seen any new players at least telling the market that we are coming soon. I think Mylan has got approval on one strength, we have heard from the market that they are waiting for their approvals on other strengths. Beyond that we have not seen any pressure on the market place saying that we are coming soon and things like that, so that is where we stand.

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Nikhil Shah

Thank you Monali. We would like to thank all of you for joining us on the call today and for any further clarifications please feel free to get in touch with the IR desk either on phone or e-mail. Thank you.