

Dr. Reddy's Laboratories Limited
Q1 FY20 Earnings Conference Call

July 29, 2019

Amit Agarwal:

Very good morning and good evening to all of you and thank you for joining us today for the Dr. Reddy's Earnings Conference Call for the quarter ended 30th June, 2019. Earlier during the day, we have released our results and the same are also posted on our website. This call is being recorded. The playback and transcript shall be made available on our website soon. All the discussion and analysis of this call will be based on the IFRS consolidated financial statement.

To discuss the business performance and outlook, we have the leadership team of Dr. Reddy's comprising Mr. Erez Israeli – our COO; Mr. Saumen Chakraborty – our CFO and the investor relations team. Please note that today's call is the copy righted material of Dr. Reddy's and cannot be rebroadcasted or attributed in press or media outlets without the company's expressed written consent.

Before I proceed with the call, I would like to remind everyone that the Safe Harbor language contained in today's press release also pertains to this conference call. Now, I hand over the call to Mr. Saumen Chakraborty. Over to you, sir.

Saumen Chakraborty:

Thank you, Amit. Greetings to everyone. Let me take you through the key financial highlights for the quarter. For this section, all the amounts are translated into US dollar at a convenient translation rate of Rs. 68.92 which is the rate as of 28th June, 2019. Consolidated revenues for the quarter are at Rs. 3,844 crores that is \$558 million and grew 3% year-on-year; however, it declined by 4% on a sequential quarter basis. Adjusted for the amount of Rs. 181 crores pertaining to the sale of US rights for PP Derma products in the previous quarter, the sequential quarter growth is flat. The year-on-year growth in revenue has been supported by the new product launches and an increase in the volume pickup across our global generics market. This growth has however been partially offset due to a sharp decline in the revenue of PSAI business, price erosion in the generics market and absence of derma product sales which was divested in the previous year.

Consolidated gross profit margin for the quarter is 51.7% with the sequential quarter decline of 70 basis points. Adjusted for the PP Derma contribution in previous quarter, the gross margin has improved by 150 basis points sequentially. Gross margin of Global Generics segment is at 57.6% which has been partially impacted due to slow moving inventory provision on a specific product, impacting the segment's margin by almost 80 basis points. Gross margin for PSAI is at 7.2% which has been majorly impacted due to lower sales during this quarter.

The SG&A spend for the quarter is Rs. 1,207 crores that is \$175 million which is at similar level as last year and declined by 3% on a sequential quarter basis. The SG&A cost percentage to sales declined from 32.5% in Q1 FY19 to 31.4% in current quarter. The decline in expense related to proprietary product commercial business was partially offset with an increase in the expense related to manpower cost increments and an increase in amortization charge related to new launches.

R&D spend for the quarter is Rs. 361 crores that is \$52 million and is at 9.4% of the sales for the quarter. The R&D spend is lower by 13% year-on-year and lower by 1% on a sequential quarter basis. The R&D spend however is expected to increase during the balance of the year.

Other income includes Rs. 346 crores received from Celgene, pursuant to an agreement entered towards settlement of any claim the company or its affiliates may have had for damages under section 8 of the Canadian Patented Medicines (notice of compliance) regulations in regard to the company's ANDAs for a generic version of Revlimid brand capsules (Lenalidomide), pending before Health Canada.

The EBITDA of the quarter is Rs. 1,134 crores, that is \$165 million, which is around 29.5% of the revenue. The effective tax rate for the quarter is 22% and we expect to be around similar levels for this year. EPS for the quarter is Rs. 39.91.

Operating working capital decreased during this quarter by around Rs. 75 crores, which is \$11 million. The decrease is attributable to a decrease in receivables, partially offset with an increase in the inventory. The net working capital days has marginally improved towards the last quarter. We invested Rs. 106 crores, which is \$15 million towards capital investment in this quarter. The free cash flow generated during this quarter was Rs. 850 crores, which is \$123 million. Our net debt-to-equity ratio has improved further, and is at 0.04 as on 30th June 2019.

Foreign currency cash flow hedges for the next nine months in the form of derivatives for US dollar are approximately \$345 million, largely hedged around the range of Rs. 70 to Rs. 73.9 to the dollar. In addition, we have balance sheet hedges of \$361 million. We also have foreign currency cash flow hedges of 2,400 million rubles at the rate of Rs. 1.075 to the ruble, maturing over next for the nine months.

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

Erez Israeli:

Thank you, Saumen. Greetings to all. We had yet another good quarter with continued improvement witnessed across various business health and performance metrics. There has been significant growth in the free cash flow generation, and we now have much stronger balance sheet. On our quest to grow, diversify our business and become more efficient, we have seen good traction in new product launches in the US and Europe markets, and continued with the growth momentum in the India and Emerging markets.

Let me take you through the key highlights across our businesses. Please note that all references to numbers in this section are in the respective local currencies. The North America generics revenue for the quarter are at \$234 million, with a year-on-year decline of 1%. However, the business registered growth of 10% over the sequential quarter, driven by continued ramp up in gSuboxone sales and improved contribution from recent launches. The overall market environment has been relatively stable and witnessed base price erosion consistent with past few quarters.

We have been fairly busy with the uptick in the launch momentum of new products and till date have launched 10 products since the beginning of this fiscal. This includes multiple interesting products like Daptomycin, Vitamin K injection, Carboprost injection, OTC Guaifenesin, Pseudo, Ramelteon and relaunch of Isotretinoin. Many of which have been either first-to-market or in limited competition space. We expect this launch momentum to continue and are on the track to bring more than 30 products to the market in FY 2020. As of now, we have around 115 commercial products in the US market.

On the gNuvaring asset, we are actively awaiting the feedback from the USFDA around the approaching goal date in the coming weeks. While we have answered all the queries in our last CRL response, we expect to receive some additional queries. We will have better visibility on timelines once we hear back from the agency.

The Europe business recorded sales of € 31 million, with the year-over-year growth of 22% and a sequential quarter growth of 29%. The strong performance for the quarter was a result of improvement in supply situation and new product launches across markets. During the quarter, we launched six products in Germany, four in the UK, three in France, one in Spain. We expect this business to continue to perform well during the year.

The Emerging market business recorded sales of Rs. 730 crore with the year-over-year growth of 10%, and a sequential quarterly growth of 4%. The Russia business grew by 5% year-on-year and 9% quarter-on-quarter in constant currency. The current quarter performance is in line with our expectation. As per our strategic growth plan, we are continuing to strengthen our product portfolio across the emerging markets, and expect the current growth momentum to continue going forward.

India business recorded sales of Rs. 696 crores, with a year-on-year growth of 15%, and a sequential quarter growth of 7% during the quarter. During the quarter, we launched eight new brands. As per the secondary sales reported by IQVIA, we have registered strong year-to-year growth of 13% ahead of the total market growth of 10.4% for the quarter ended June 2019. We believe that with our renewed focus on home market, we will continue to grow better than the overall market.

The PSAI business revenues are at \$ 65 million, which has declined by 20% on a year-on-year basis, and a sequential decline of 32%, partially impacted due to manufacturing issues, which has now been resolved. We expect that the business performance should improve from Q2 onwards.

On the R&D front, we are progressing well in line with our expectations. While we have filed only one ANDA in this quarter, the filing run rate is expected to pick up during the balance of the year. As of 30th of June 2019, we had 107 cumulative filings pending for approval with the USFDA including 104 ANDAs and 3 NDAs. During the quarter, we filed seven Drug Master Files globally.

On our Proprietary Products business, following the divestitures of our on-market derma brands to Encore Dermatology, we recently announced the divestiture of our neuro brands Zembrace and Tosymra to Upsher-Smith. The transaction value reflects the strong potential of these two brands and we believe this partnership will help realize the full value for these assets. With these divestitures, we have only exited the front end commercial business. We remain committed to developing products to address the unmet and under met medical needs as part of Proprietary Products business. Our focus going forward will be to leverage our core capabilities in R&D, to build a self-sustained business model that consistently deliver high value, globally relevant, differentiated products providing meaningful health, economic outcomes to patients and payers.

On the pipeline front, DFD-29, which is a low-dose minocycline and XP-23829 have both successfully completed Phase 2B studies with the data looking quite encouraging. The development on E7777 for CTCL indication is also on track. Consistent with these guiding principles, we will continue to further this agenda.

On the quality front, I am quite pleased with the outcome of the recent inspections, which has been result of our focus and dedicated efforts to continuously improve our quality system. We will continue with our efforts of imbibing high-quality culture across the organization. As regards to CTO 6, we had face-to-face meeting with the USFDA and based on this discussion with the agency, we expect the re-inspection will be conducted for the site.

I am pleased to inform that we also continue to progress well on our journey toward driving cost efficiency, prudent CAPEX investment and improvement in the business processes for long-term sustainable growth.

With this, I would like to open the floor for questions and answers.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Neha Manpuria from JP Morgan. Please go ahead.

Neha Manpuria: My first question is on India. We have seen an improvement in the growth momentum outperforming the industry. How should we look at the growth trend over a medium term? What

is our expectation of the India performance, let's say, over the next two years? Where do we see our India business?

Erez Israeli: India is a very important market to us. We indicated also in the past. We are focusing on India and we want to grow our ranking. So, we should expect to see growth that is better than the overall market, plus if applicable, and if we'll find the right deal, we will not be shy to do inorganic moves as well.

Neha Manpuria: And Erez, how do you plan to improve the growth rate or maintain the growth momentum, if you could indicate a couple of actions that we are taking to probably further improve the growth?

Erez Israeli: It's a combination of improving the execution of the salesforce and that's what we are doing. It's a salesforce effectiveness and other commercial excellence activity. This is once again, we are putting more investment in the brands that have a chance to be bigger. And the third is that we are launching, as I mentioned, we already launched eight, and we're going to continue to do so. So, we are ramping up and launching more products.

Neha Manpuria: Understood. And my second question is on the margins. This is the second quarter, where we are seeing certain provision for inventory, I think we saw some in the last quarter too. What are these provisions related to and should we expect more such provisions going forward?

Saumen Chakraborty: We always build up inventory in anticipation for new product launch. So, if there is considerable delay in that, there is no other option left for providing for inventories, which is closer to shelf-life expiry.

Neha Manpuria: So, this is primarily for the US in that case?

Saumen Chakraborty: Mostly.

Moderator: Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Again on the gross margin front, although there is a kind of sequential decline in the PSAI business, which is generally a low margin or a lower gross margin business. Despite that, we have seen a kind of the sequential decline in the gross margin. So, entire of this negative trend in the gross margin is because of the inventory adjustment?

Saumen Chakraborty: If you see the gross margin of Global Generics segment has actually improved. So, it is the PSAI which has pulled down and then, also there is inventory provision that has also contributed.

Surya Patra: So, are you quantifying, sir? This inventory adjustment?

Saumen Chakraborty: We are clarifying what is the gross margin of Global Generics segment, which is 57.6 and PSAI is at 7.2, which is although the mix wise, there is a benefit because Global Generics as a

percentage of overall Dr. Reddy's sale has improved and then the remaining is attributable to write-offs providing for inventory.

Surya Patra: And do you think this is a kind of sustaining fact for this year or it is just couple more quarters specific or anything on that front?

Saumen Chakraborty: PSAI as Erez has already alluded, we believe it was Q1 specific issue. It should bounce back in Q2. So, far as slow-moving inventory provision, it all depends, if there is a further delay in anticipated new product launch, we have to appropriately then take care of that.

Surya Patra: On the second question on the PSAI business, sir, what was the impact that we are seeing? It is only because of the manufacturing or any pricing or any other issue that we are witnessing in the market?

Erez Israeli: It is primarily because of operational issues.

Saumen Chakraborty: So, we have a healthy order book, which gives confidence of recovering in Q2 because we have a healthy order book.

Surya Patra: And just one more question on the Nuvaring side. So, what could be the kind of a competitive scenario there though as of now it seems that, okay, it is a limited competition one, and you have already indicated that you have responded to the CRL there, and you are hopeful about it. So, any color on that front in terms of the timeline that you're visualizing and the competitive scenario there?

Erez Israeli: On the competitive scenario, we don't see any additional people that are coming beyond the one we know. So, in that respect, I don't see a change. As of the timing, it depends on the queries if and when they will come, then we will know the timelines to address those. We don't have any better indication in that at this stage.

Moderator: Thank you. The next question is from the line of Nimish Mehta from Research Delta Advisors. Please go ahead.

Nimish Mehta: Sir, a little bit more on the gross margin. So, if you can just tell us what could be the gross margin had we had a normalized PSAI. I mean just so that we know what to model. That would be helpful? And second question is about the launch of Vimovo, are we likely to launch it at risk? What is the plan. Thank you.

Saumen Chakraborty: First is PSAI, there could be fluctuations from quarter-to-quarter. So, it is very difficult to tell you what could be a normal range. But if we perform well, then it should be better than 20%. It could be even 30% or it depends, it can fluctuate. So, it is very difficult for me to tell any specific normal range.

Nimish Mehta: But the PSAI margin should be taken as 20% to 30% normalized? I mean, also 7% that we have seen in there right now? Is that a fair understanding?

- Saumen Chakraborty:** So, I'm just giving you the range. If we look at the past data and draw a kind of how it has fluctuated over the period, then you can also get to your own conclusion, otherwise, investor relation, they can send you the past graph of what has happened in different, different quarters. But Yes, it will be safer to assume that kind of range.
- Nimish Mehta:** Just to put it in context, we had earlier said that the gross margin would hover between 53% to 56% at the Group level?
- Saumen Chakraborty:** That is for the company, again, if you look at the past data, and I said that, saying there will be some exceptions in few quarters. But, if you see the past data, you will see that it has fluctuated between these range in most of the quarters. Even if you take for last several years, multiple quarters, the fluctuation has been more than 80% to 85% of the data point will be in that range, and 52% to 56%, so that we will expect for a company level a normal kind of range.
- Nimish Mehta:** Yes. At a company level, once we get back to normalized sales on PSAI, 53% to 56% is a reasonable expectation. Is that a fair understanding?
- Saumen Chakraborty:** Yes, for PSAI 7.2 is pretty low, you could understand. If this quarter, if the margin level would have been higher, then definitely overall company margin also would have come within that range.
- Erez Israeli:** And as per the gVimovo, your second part of the question, firstly, we have a very exciting positive outcome in the Court of Appeals as you know that we won the two patents. Now we are waiting for basically to get either the (Inaudible) or the issuance of the mandate in the next coming weeks. Now once the mandate is issued and naturally, we will evaluate the launch possibility and it is exciting product, we will not commit what we will do, but we are very excited about this one.
- Nimish Mehta:** Okay, understood. If I may squeeze in, also would be helpful if you can tell us about the possible outlook of the Vitamin K injection that we recently launched. And do you think Revlimid as an opportunity, that's exciting now that we've settled in Canada, I'm talking about the US opportunity, so some color on both this product will be extremely helpful. Thank you very much.
- Erez Israeli:** So, Vitamin K is a great product. That's what I can say about it. And we are very happy about it. We are not giving guidance for product. And as for the other one, we are proceeding in the legal case and we believe that we have a nice story about if that also the innovator appreciates.
- Nimish Mehta:** You are talking about the US market, right?
- Erez Israeli:** Yes. There is no relation between the Canada process and the US. These are separate process.
- Moderator:** Thank you. The next question is from the line of Nitin Agrawal from IDFC Securities. Please go ahead.

- Nitin Agrawal:** Sir, again on the gross margin bit on the US business, especially in the Global Generics business, you had three or four quarters of 57.5% gross margins, we used to be a much higher margins earlier in this business. So, given the new pricing dynamics in the market, is this the normalized level for this business or do you see opportunities to meaningful increase it on a Global Generics segment going forward?
- Saumen Chakraborty:** It depends on new products and if there is a significant kind of a new product launch, then definitely, during those quarters, there could be an improvement possible. Now, similarly in a quarter, if there is no new product launch, it could be impacted because so again very difficult, the reason why do we not provide any kind of financial guidance, it is unpredictable. You cannot give any kind of a specific kind of thing what it could be. This is what you see is the impact of all the price erosions which have been happening over last few years.
- Nitin Agrawal:** And Saumen on R&D, we still hold on to the \$250 million to \$300 million guidance for the year. We had \$50 million or so spend this quarter?
- Saumen Chakraborty:** So, let me clarify one thing we always say, we don't give any kind of financial guidance. So, at the same time on few of these like Capex or R&D or effective tax rate, what we provide is more of an indicative kind of thing which, if there is any change, quarter-to-quarter, we can then accordingly inform all of you. So, at this point of time, there is no reason for me to believe that it will go out of this range. For the first quarter, it has been 52, but for the remaining three quarters, it could cumulatively come to the same. But if there is any change we expect, and in the Q2 earning call, we will talk about that.
- Nitin Agrawal:** Thanks. And lastly, are there anymore cost on the Proprietary business, which is still there in this current quarter numbers, which will be probably reduced from the next quarter onwards?
- Saumen Chakraborty:** As you know that, it is the commercial part of the business, which is actually closing down. So, there are definitely some of the employee settlement related thing which we'll have to factor in. So, we will come back probably in next quarter onwards, you can see at a normalized level of Proprietary Products business. The cost aspects on that front, but we are going to continue to spend money on R&D for Proprietary Products. So, that will be there. Only thing you are not going to see any sales except for the royalty from Proprietary products business.
- Moderator:** Thank you. The next question is from the line of Abhishek Sharma from India Infoline. Please go ahead.
- Abhishek Sharma:** Sir, just two questions. You said on PSAI, essentially this was a manufacturing-related issue. Can you help us with more color on it? It must have been facility specific, so which facility was impacted?
- Saumen Chakraborty:** So, you are asking more granular details. There have been some hiccups in terms of committing to customer delivery, and that has impacted the sale. As already Erez has alluded that those

things have been resolved, and since we have a healthy order book, we expect the quarter two performance to get back to normal level.

Abhishek Sharma: Just, one bit on that. It was product specific or was it site-specific?

Erez Israeli: If you have related it, should we have any site quality issues, the answer is, no. These are related to product production, specific.

Abhishek Sharma: Got it. And the other question is, on strong free cash flow, now the company continues to generate strong free cash flow. Last year was great. This quarter again has been great. So, in terms of capital deployment, how are you thinking about it? What avenues are you exploring for that?

Saumen Chakraborty: So, this is something we have discussed at length within management and along with the Board in terms of the total capital allocation. In the past, when we had surplus cash, we even went for a buyback arrangement. But, if there is an inorganic growth opportunity, which is there, then, that also is helpful in terms of the capital deployment. We have already alluded to that in terms of our total capex requirement, the need has come down already having invested so much in the capacity and we have been continuing with the pretty consistent dividend policy. So, this is something which we are discussing internally. May be in terms of which specific part of the business, where the capital allocation could be more in comparison to some other part of the business, those are some adjustments, which we will be doing in our capital allocations.

Erez Israeli: We are absolutely planning to use our financial capacity for inorganic, once it will be material. We will not go crazy and we will not pay something that we should not pay and we mentioned it also in past meetings as well. But we are very happy about our situation and it's going to even further improve. As for example, we already got some of the money for the Proprietary Products as well, which we'll recognize next quarter. So, this allow us now much more strategic flexibility and naturally, we will spend the money, if we'll go inorganic in the relevant spaces that we defined. So, within to create additional value in the spaces that we are focusing on.

Abhishek Sharma: And just to close it out, where do you see opportunities in terms of inorganic? Is it more India, Emerging markets, US or something else?

Erez Israeli: Actually, there are many assets that are out there plus many assets that will be out there. I think, fortunately for us, we have a very good situation, especially in terms of balance sheet. I think that some of our colleagues in the market have issues. And you know well about it and I believe that more assets will come in each one of the spaces. So, what we want to make sure that it's not just the right value for investment, but also that it will help us to create right capability, the right synergy in each one of the spaces. Specifically, for India, we'd love to have in India in any one of the spaces that we have.

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

- Prakash Agarwal:** Sir, the question on the just announced Mylan-Upjohn merger taking place, and we've also seen Aurobindo buying out large Sandoz assets in US. So, how do we think about the current environment? Is it like the large players consolidating and the pain points bottoming out or do we still see the pain points coming ahead and that's why they're getting merging and that's why getting stronger to face the headwinds? How should we look at it?
- Erez Israeli:** I believe that each one of the cases is different. And Sandoz is something that happened more than a year ago, and it has actually started more than I think 18 months ago when it's started and the rationale of course, so it was the way Sandoz and Novartis wanted to conduct the Sandoz business at that time. I believe that there is a news of Mylan and Pfizer, it's coming from of course the perspective of this company is in how we want to manage the generic assets. I don't see any similarities, and naturally, what we are going to see, I believe is that assets will continue to flow out of there, and people are finding solutions for the relevant challenges especially for those that there is challenges, they will seek those solutions. We are on the hope that we will find ourself on the winning side because we can actually use those assets, if there will be synergetic stock activities. So, I see it overall as an opportunity.
- Prakash Agarwal:** But Dr. Reddy's as such, we are not looking for something as large in terms of acquisitions. We would be more or so looking at something in the emerging market, would that be correct understanding?
- Erez Israeli:** We are looking all over the place for the relevant opportunity, not necessarily in emerging markets.
- Prakash Agarwal:** And sir second question on Suboxone. Since the last Q4 commentary, we made a comment that we are improving market share. Have we reached a fair share? Has the competition intensified there? And what is the outlook there?
- Erez Israeli:** I think the main change was not so much about the fair share, but rather that the uptake of Generics as a whole, it means that the substitution from the innovator products to the Generics as a whole was relatively slow. I see that it's about 50% right now. So, it means that there is more room for growth in that respect.
- Prakash Agarwal:** Sir, I did not understand. 50% generics are already there you are saying?
- Saumen Chakraborty:** No. genericization of this brand. So, even now the innovator brand is continuing to grow at the 50% of the market share. It times to get the genericization. All generics company combined will have the remaining 50%.
- Prakash Agarwal:** Understood. And we would be at around 15%, 20% sir?
- Amit Agarwal:** We would be around 20% of the generic market, Prakash.

- Prakash Agarwal:** 20%, perfect. Great. And sir, last question on Russia CIS, last year obviously on a low base, we saw a lot of launches. And we had a good base, but particularly this quarter, the start has been slower, how should we see the full year?
- Saumen Chakraborty:** Again, we cannot give guidance, but as Erez has said that we're taking multiple initiatives, including new product launch improving the salesforce effectiveness. We hope to perform well in Russia market.
- Erez Israeli:** For Russia, it's not that slow. I don't know what others are doing in Russia, but if you see there, the IMS for the Russian market, you'll see that it's not that slow.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** My first question is on generic Velcade. I recollect, we had, 505(b)(2). So, is there any update on this particular filing?
- Amit Agarwal:** So, Shyam, so this on the generic product, the generics have basically lost the case and we will only be able to launch after the patent expiry and for the 505(b)(2) the file is under review with FDA. And as and when we hear from FDA, maybe at that point in time, we can come to market. So, as of now, we don't have any further update. This filing is under review with FDA.
- Shyam Srinivasan:** Amit, do you think it's a few quarters or you think it's like next year kind of an opportunity, if it comes?
- Amit Agarwal:** Little difficult to comment at this point in time because we haven't heard from FDA and it is old filing, so we don't have a goal date there.
- Shyam Srinivasan:** Okay. Thank you. My second question is on Revlimid, I think to another participant, I was not clear, what was mentioned. Are we waiting now for the district court process to complete, which is like early 2020 calendar year? Would that be the current status update on the Revlimid?
- Erez Israeli:** We are in the legal process. I don't know about the dates. It's hard to predict dates of legal proceedings. But, we are in the legal processes.
- Amit Agarwal:** We haven't got any dates.
- Shyam Srinivasan:** My last question is on SG&A. I think we have seen like significant progress on this, 31% fiscal in the current quarter. Historical levels FY '15, '16 have been lowered, do you think there is more room for the cost rationalization program to kind of cut costs further?
- Saumen Chakraborty:** Yes, there is room.
- Shyam Srinivasan:** Saumen, any sense is that, what are these areas because we have done a lot of work, what are the other pending kind of levers that you think we can actually kind of bring down?

- Saumen Chakraborty:** Even if whatever we do it, all the things, doesn't accrue straightaway. It accrues over a period of time. And second thing, there is always scope to improve productivity beyond what we have today and that depends on technology, that depends on specific intervention. So, we are going to focus on it. This is a journey, which we have undertaken with utmost seriousness and we want to be more efficient.
- Moderator:** Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.
- Sameer Baisiwala:** Is there any updated thoughts on increasing the scale of operations in China? Specifically, 70 products that you thought is something that you can take to that market?
- Erez Israeli:** Yes. So, we are on track with that. We increased the team that is dealing with the development and as we are doing for some of the product and we are doing studies in China and especially biostudies and we also have a project of expansion of the capacity of the plant that we have in Kunshan. So, we recently upgraded the management over there and sent a new head of China. So, we are ramping up and I'm very happy with the progress that we have in China.
- Sameer Baisiwala:** Great. So, Erez what is the roughly the time that it takes do the biostudies and all the work that's required and do the filing and second, from filing to approval, so if you can just help us with that?
- Erez Israeli:** Biostudy, it's a process including the stability, etc, let's say, around a year and that's related to filings to approval. It depends on whether the product can meet GEA or not because they can do it very fast, but let's say between a year to 18 months, this is the timing.
- Sameer Baisiwala:** 18 months you're saying from now to getting to the market or just approval?
- Erez Israeli:** No, from filing to approval. That's what you asked.
- Sameer Baisiwala:** And so basically, is it fair to say that it's about two year plus, two to three years before we start to see the real money come in, will that be a fair assessment?
- Erez Israeli:** It depends what we call real money. We are growing at double digit as we speak and this is a pretty deal, but Yes, we will see in this period of time much bigger money. Yes, that's what we are planning to have.
- Sameer Baisiwala:** Okay, great. And then on Proprietary Products for the three drugs, which are right now in the clinical development, would you want to take them fully to the market and commercialize, or do you think at some point in time, we will be looking to monetize, as we have done with the five other products?
- Erez Israeli:** We'll probably monetize them as well.
- Sameer Baisiwala:** Okay, so in effect over a time period, you would be completely exiting the specialty business?

Erez Israeli: No, we are not exiting. Let's clarify that. That's important. So, we do have an advantage on the development and the clinical development of this kind of products. And we want to continue to leverage this because this is a proven capability that we have. What we saw that we do not have advantage even lost money is on the commercialization, the detailing that it takes. That part we lost money. So, we have exited the direct commercialization of that products but we did not exit specialty. We believe that we can make more money by monetizing these product than by selling it ourselves, at least for the next coming years. So, we are not exiting specialty. That's a very important clarification.

Saumen Chakraborty: Also we explained earlier. It is very difficult to synchronize the number of products, which will get launched in a specific salesforce you build up. So, if you have only one product to promote, then you cannot recover the total salesforce expense. So, considering all these things, we thought it is prudent that if people have the scale and the capability, they can do much better with the product that we develop and get on a royalty model.

Erez Israeli: Plus, in the markets that we do have the access, we will absolutely pick them commercially and the way we see specialty, we see it more as a global business, than an American business. And in places like India and Russia, for example, we are actually actively working. These are not the names that you saw, but we have additional Proprietary Products with these countries.

Moderator: Thank you. The next question is from the line of Hari Belawat from Techfin Consultants. Please go ahead.

Hari Belawat: This is regarding this net finance income you have shown during this quarter of around 39 crores. I mean, out of which, some it has come sale of investment profit, sale of investment 20 crore is because of that. Is it a regular phenomenon for selling of assets and earning profits or is it just a one-off case?

Saumen Chakraborty: No, this must be pertaining to the mutual fund investments. Normally, whatever we have in the surplus cash, instead of keeping in the fixed deposit, which will give very low return, we do on a based on the credit rating and safer fund kind of the analysis. So, when you redeem them, then that leads to the profit on sale of investment. Earlier, there was a different accounting standard where immediately it could have probably gone to balance sheet and later on to P&L, now it is impacting directly with the current accounting standards.

Hari Belawat: Okay, sir. I agree. But you have shown it in all the quarters even including in last year corresponding quarter also. This was income and sequential quarter also; this is shown as income. So, every quarter you are having finance income that way, is it?

Saumen Chakraborty: If we have money, if we are investing in MFs, then whenever we're ready, we'll generate profit on that investment. So, that will come on that quarter.

- Hari Belawat:** Yes. I think this is a good decision for investing money there. Another thing is where it is shown in the Indian Accounting Standard? In Indian account, it is a finance cost it is shown, but if this income is included, is it in other income or elsewhere?
- Saumen Chakraborty:** It is a part of the finance income.
- Hari Belawat:** No, sir. In your statement for this consolidated statement, you have shown this is the expense. I mean this is not a net income.
- Saumen Chakraborty:** There are two things. One is, we have some loans and, whatever loan we have taken, there we see interest. So, that will be an interest cost and wherever we make investments, if there we earn that will be an interest that we earn. So, net is, if we have more investment than what we are spending on loans, the net comes. Suppose having hypothetically, if you would have spent a lot of money on inorganic growth, then you will find it is more of a net interest expense rather than an interest income.
- Hari Belawat:** Okay. I am not able to comprehend these things, because you've shown finance cost up to 98 million and then 240 million something like that, which is actually interest cost, not the income.
- Amit Agarwal:** Hari, you may get in touch with the Investor Relations team. We will clarify you offline whatever you want to understand on.
- Moderator:** Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.
- Charulata Gaidhani:** My question pertains to the ANDA filings of the 34 first to file opportunities, what would be the addressable size and how many approvals would you expect in this year?
- Erez Israeli:** So, I mentioned before we are planning to launch 30 plus products in this year. Some of them are the first to file. I don't know the exact number.
- Charulata Gaidhani:** And my second question pertains to Russia. What is the normalized growth that you expect for Russian market.
- Saumen Chakraborty:** As I told you earlier, we do not give any financial guidance. So, we can only tell you that we expect to grow, by how much, we'll not be able to quantify and give you guidance.
- Moderator:** Thank you. We have the last question in queue from the line of Surya Patra from Phillip Capital. Please go ahead.
- Surya Patra:** Yes, just thanks for the follow-up. Sir, if you can give some clarity on your progress in the biosimilar side for the advanced market that is one. And second, I just wanted to have a clarity this 70 million the disposal received upfront, whether you have factored this quarter or whether it would be factored in the subsequent quarter?

Saumen Chakraborty: Second question, I will take first. It will be in subsequent quarter because that deal got closed in July after the FTC approval. And also, we have received cash. It will be in Q2. It was not in Q1. And then the first question.

Erez Israeli: On the biologics, we are on track with the Rituximab studies. So, this is on track. We have the patients coming up and filing up for the study. So, everything is on time, on track, on budget in that respect.

Surya Patra: Sorry, I missed the product name, sir?

Erez Israeli: Rituximab.

Surya Patra: Any other product that is in the advanced stages of development?

Erez Israeli: For the United States that's what we published. We did not disclose the names of the others, but we are working on multiple levels.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Amit Agarwal for closing comments.

Amit Agarwal: Thank you everyone for joining us today for the earnings call. In case of any further queries, please reach out to the Investor Relations team. Thank you.