



Dr. Reddy's Laboratories Limited

Q4 FY15 and FY 15

Earnings Call Transcript

Kedar Upadhye:

Good Morning and Good Evening to all of you! Thank you for joining us today for Dr. Reddy's Q4 FY15 Earnings Call. Earlier during the day, we have released our results and the same are also posted on our website. We are conducting a live webcast of this call and a transcript shall be available on our website soon. Just a reminder, the discussion and analysis in this call will be based on IFRS consolidated financial statements.

To discuss the business performance and outlook, we have the leadership team of Dr. Reddy's comprising Saumen Chakraborty – our Chief Financial Officer and Abhijit Mukherjee – our Chief Operating Officer along with the Investor Relations team.

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Before we proceed with the call, I would like to remind everyone that the Safe Harbor language contained in today's press release also pertains to this conference call and the webcast. After the end of the call, in case of any additional clarifications required, please feel free to get in touch with the Investor Relations team.

Now, I would like to turn the call over to Saumen Chakraborty — our CFO.

Saumen Chakraborty:

Thank you, Kedar. Greetings to Everyone.

Let me begin with the key financial highlights: For this section, all the amounts are translated to US dollars at a convenience translation rate of Rs. 62.31, the rate as on 31st March 2015.

Consolidated revenues for the year are at Rs.14,819 crores or \$2.38 billion and grew by 12%. Consolidated revenues for the quarter are \$621 million and grew by 11%. This was a relatively moderate quarter considering the currency volatility in Emerging Markets and seasonal moderations, post high Q3 uptick, in U.S and Russia. Revenues from our Global Generics segment for the quarter are \$497 million and grew by 13%. This growth is primarily a factor of full year benefit of Injectable launches in the U.S. coupled with significantly higher contribution from Venezuela market. We have seen the impact of sharp currency movement in Emerging Markets, though the currency seems to have stabilized recently. Our India business delivered 'above market' sales growth, which was in line with our expectations. Revenues from our PSAI segment are \$119 million and grew 12%.

Consolidated gross profit margin for the quarter is 54.8% and declined by 240 basis points over that of the previous year. The gross margin for Global Generics and PSAI are 62.8% and 23.1% respectively. This margin decline captures the impact of unfavorable currency situation in the select Emerging Market territories.

SG&A spend, including amortization, for the quarter is \$162 million and decreased marginally over the previous year. As alluded in the earlier call, this reflects early benefit of the operating leverage and steps taken by us in optimizing various cost items.

R&D expenses for the quarter are at \$83 million at 13.3% to revenues Vs 11.4% in the previous year. R&D spend and increase versus sequential quarter is in line with our planned scale up in activity.

In February 2015, the Government of Venezuela introduced a three-tier currency system. We determined that it is appropriate to use the SIMADI rate which is Bolivar 193 per USD to translate the net monetary assets, other than those which qualify for the CENCOEX rate of Bolivar 6.3 USD. Accordingly, the foreign exchange loss on translation of such net monetary assets of \$14 million, as on March 31, 2015, is recorded in the financial statements.

EBITDA for the quarter stands at \$129 million, which is 21% to the revenue. Tax rate for the quarter is 13%; however, the annual effective tax rate is 21.2% which is within our guided range.

Key balance sheet highlights are as follows: Our net operating working capital decreased by \$21 million during this quarter. The credit period for customers in various markets as well as the days sales outstanding ratios have remained largely same compared to the sequential quarter. Capital expenditure for the quarter was at \$39 million. Our net debt-equity ratio is at 0.03.

Foreign currency cash flow hedges for the next 18-months in the form of derivatives and loans for US dollar are approximately \$440 million, largely hedged around Rs.60 to Rs.64.5 to a dollar. In addition, we have balance sheet hedges of \$291 million. We also have foreign currency cash flow hedges of RUB 1,760 million at the rate of Rs.1.16 to a RUB maturing over next 12-months. We are maintaining a close watch on the macroeconomic situation in various emerging markets and wherever appropriate we are calibrating the scale of our business and working capital investment.

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

Abhijit Mukherjee:

Thank you, Saumen. Greetings to everybody and I extend a warm welcome to you all on this earnings call.

FY15 has been a mixed year for us. In our biggest market which is US Generics, we build strong market position for a high margin injectable franchise. We also enhanced our OTC portfolio by acquiring and launching Habitrol[®], the Transdermal Nicotine Patch. In addition, increase in market shares across key molecules was a notable accomplishment. Initiatives like these help offset the impact of delay in new product approval and the price erosion on base business. On the Emerging Markets front while we delivered strong performance in key countries in terms of local currencies, we continued to track the macroeconomic situation. For India business you notice the trend of predictable and sustained performance. At the company level we increased R&D spend by design, across verticals, and entered into a number of synergistic deals across markets. The recent announcement of the acquisition of UCB brands for India business is a step in the same direction.

Now, let me take you through the key highlights for each of our key markets for this quarter. Please note that in the section all references to numbers are in respective local currency.

Let me start with North America Generics: We crossed the important mark of a billion dollar of revenues in fiscal 2015. The team continues to improve market shares for products such as atorvastatin, amlodipine + atorvastatin, divalproex ER, lamotrigine XL, metoprolol ER, sumatriptan auto injector and ziprasidone. As per IMS we are ranked 9th in terms of total prescriptions for the quarter ended 31st March 2015. During the year we continued to strengthen our supply chain which benefited in the form of market share gains that I referred earlier. For the quarter, performance is sequentially flat at \$279 million. Considering the seasonal purchasing uptick in Q3, Q4 performance was stable on the back of sales of valganciclovir and sirolimus. Also, we had a full quarter sales of Habitrol[®] brand.

On the Emerging Markets front, Russia revenues are \$42 million for the quarter and grew by 3% year-on-year in constant currency. Q4 performance was moderate considering large seasonal sales in the previous quarter. On an annual basis Russia revenues are \$244 million and grew by 13% in local currency. Our team continues to explore the opportunities for portfolio expansion. As per IMS, YTD March 2015, our OTC business grew by 17% versus market growth of 12% in constant currency. Out of the other Emerging Market geographies, Venezuela delivered better-than-expected growth on the back of continuing volume upsides. The contribution from Venezuela has been quite meaningful throughout this year. We are ranked 20th in value terms and 12th in unit terms, which clearly highlights our endeavor to provide affordable medicines to patients. Our actions continue to be guided by the long-term strategic view of this market; however, we continue to watch currency and funds repatriation situation very closely.

India Formulations business posted revenues of Rs.474 crores for the quarter and grew 16% year-on-year. On an annual basis, India revenues are Rs.1787 crores and grew by a healthy 14%. Our growth and ranking in

prescription terms is improving. We believe that steps taken over the last two years on portfolio, training and expansion of field teams, focus on new launches productivity and mega brands have started benefiting us. The year has also seen key BD deals culminating to closure which will potentially lead to value generation in the coming year. We continue to work with UCB team in closing the earlier signed definitive agreement and soon start the integration efforts.

PSAI business posted revenues of \$120 million and grew 9% year-on-year and 19% on a sequential basis. Considerable efforts are being put to achieve the twin objectives of sales growth and healthy margins. We are also looking at newer technologies and platforms to revamp our product offering and move higher on the innovation scale.

Our development engine continues to prioritize on complex generic assets across identified dosage form therapies. We are also investing aggressively to build best-in-class manufacturing infrastructure to service future demand across the markets. You would have noted the announcement of filing of three NDAs by our proprietary products team. This is a key milestone towards commercialization of the differentiated products of formulations pipeline. The interaction with our senior team during the scheduled Investor Day on 18 May at Hyderabad will further help in clarifying on the commercialization potential of our pipeline.

Thanks, and with this I now open the call for question-and-answers.

- Manoj Gord:** Can you provide an update on the latest communication between yourself and the FDA on your API facility?
- Abhijit Mukherjee:** We had the audit mid-November. We have sent the first update in January and next in April. We are continuing to send updates to FDA. Beyond that we cannot provide anything further. By and large the commitments which we had made in our first response are on the verge of getting closed.
- Manoj Gord:** It is my understanding that you started the site transfer process for Esomeprazole. Can you confirm for us whether new bioequivalence studies are necessary for the site transfer?
- Abhijit Mukherjee:** We have completed the site transfer. We have validated and submitted our updates to FDA from a new API site. As far as bioequivalence is concerned, we have no idea whether this would be required or not. This is as a tech transfer - like-to-like same process, same raw materials, and same equipment into another plant.
- Manoj Gord:** So you mention that you provided an update. Has FDA responded to your update?
- Abhijit Mukherjee:** Not yet.
- Manoj Gord:** Is there any general timeline on that?
- Abhijit Mukherjee:** We have submitted and we are in touch. There are one or two things which they have asked. These are being responded to as we speak.
- Nimish Mehta:** From the Srikakulam plant, how many products you expect to launch in this financial year? If it is cleared in the first half then how many, and if not in the second half then how many, that kind of break up would be very helpful?
- Abhijit Mukherjee:** In the Generic business the total numbers would not matter. First of all, it will not be fair on my part to give you a number (of products) which we will earn, because we do not know how many approvals we will get. What is important is which one of those is going to get approved. Probably four or five of them are important and meaningful in terms of scale. Whether we get approval of the ones we just discussed in the previous question and a few of the others - we would not like to go into specifics. Few are in litigation which you can take a look at. Otherwise we would not like to give further details on this.

- Nimish Mehta:** We were expecting to launch Nexium as for the last quarter. Can you give some color on that?
- Abhijit Mukherjee:** We just explained that we filed in March from another site after tech transfer - similar process and similar raw materials. Beyond that we do not know how this will progress. This is completely for FDA to decide how they view it and how quickly they will take it forward.
- Nimish Mehta:** In the press release today you also mentioned that you had recognized some revenue from Curis deal with Aurigene. The amount mentioned was about \$23.5 million, Will that be recognized upon Aurigene's realization of the work? How much is it for the quarter and how can we forecast it?
- Saumen Chakraborty:** In the Curis deal there was equity participation in return for the technology that we have given to them. There has been some appreciation of the Curis stock, but the mark-to-market evaluation of that, will normally be stated in the Other Comprehensive Income in the balance sheet, unless and until you decide to dispose of that. Only then can it come in the P&L, otherwise it remains in the balance sheet. If there are other milestones, then those come under revenue recognition consideration, but that also does not come straight away. It will be recognized over the period of time, where the services are to be performed by Aurigene.
- Nimish Mehta:** No, I am talking about the equity that is given to Aurigene because of the deal and as per one of the notes in today's result it is mentioned as being recognized and that it is worth about \$23.5 million. I could not understand how it will be recognized. I am referring to that; I am not referring to the mark-to-market gains or any of those things.
- Saumen Chakraborty:** What has been written in the note is that the fair value of the equity share on the date of the agreement was \$23.5 million.
- Nimish Mehta:** It has also been recognized as a part of revenue is also written there?
- Kedar Upadhye:** Nimish, this note in the SEBI disclosure talked about the fact that we have got this equity under the deal, there is no recognition in this quarter. Typically, these upfront payments are recognized over the time you have continuing managerial involvement with the partner, which could be the period as long as 8-10 years. So in this specific quarter, there is no recognition of income from this deal.

- Saumen Chakraborty:** I think it is written in the note very clearly that recognized over the period in which Aurigene has continuing performance obligation. That is how it is a clarificatory note is given
- Nimish Mehta:** Will that be about 8-10 years?
- Saumen Chakraborty:** We do not disclose specific timeframe, but yes, in ballpark figure you are right.
- Neha Manpuria:** We had mentioned in the last quarter that we have taken price hike in Russia. Now, with the currency situation stabilizing, how have we seen market share in existing products given some of our peers mentioned that they have not taken price hike to avoid market share erosion? Just wanted to get some color on underlying growth in terms of volume versus value share.
- Abhijit Mukherjee:** Impact of economy certainly had a bearing on the way patients are purchasing medicine and there is certainly some erosion in terms of moving away from brands to generics which has some impact, not just for us but for other companies as well. The reversal of currency and its impact of economy is yet to play out. It is just recovering recently. Let us see how things go. We stay put in the geography. We stay confident in Russia major part of the turbulence is hopefully behind.
- Neha Manpuria:** On the R&D spend side, I notice that nowhere have you mentioned how we should look at R&D. Is it still (+11%) or would you take that up further? What percentage of the R&D in FY2015 was Generics versus Innovative and Biopharmaceuticals?
- Saumen Chakraborty:** The proportion remains almost same, 60% of our R&D spend is still for Global Generics including API, and 40% is towards Proprietary Products and Biologics. Our ballpark figure of R&D spend is around 12%. This year we ended at 11.8%. It can fluctuate a bit because this particular quarter it has gone up quite a bit also because of the three NDA filings we did right at the end of the quarter.
- Neha Manpuria:** Is it fair to assume that it would be close to the average that we have done for the year?
- Saumen Chakraborty:** Yes.
- Neha Manpuria:** The FX translation loss related to Venezuela, is that across various lines above the EBITDA or is this below the EBITDA in the other interest income line?
- Saumen Chakraborty:** EBITDA got impacted, otherwise our EBITDA would have been Rs.80-90 crores higher this quarter.

- Neha Manpuria:** Is this across the lines in above the EBITDA?
- Saumen Chakraborty:** In the FOREX line.
- Anubhav Agarwal:** One question on the European market: Your presentation mentions that you launched some new products and the sales seem to be going up. Can you talk more about the launches and which geographies these launches has happened?
- Abhijit Mukherjee:** We are present in two countries, where launches are there. These are CNS drugs which went off patent, very specifically, aripiprazole and pregabalin. This is certainly a good beginning. We look forward to a much more sustainable outcome from Europe. The main part of the strategy would hinge on some of the similar products, injectables, etc., which we are filing for US to come through in due course in Europe as well. Cannot say if they will be as lucrative as US, but certainly they would provide a better and more sustainable picture.
- Anubhav Agarwal:** This was largely UK?
- Abhijit Mukherjee:** UK and Germany both.
- Anubhav Agarwal:** In Germany, outside the insurance contract, right?
- Saumen Chakraborty:** Yes, that is outside the tender.
- Anubhav Agarwal:** One question on the margin decline sequentially for Global Generics segment. You mentioned the currencies had a role to play. I completely agree with that, but, the extent of margin decline does suggest that 300 basis points decline sequentially cannot happen unless your US margin gets impacted as well. Did anything particularly in US get impacted? Some of the key products or anything more than the usual inventory write-offs?
- Saumen Chakraborty:** There will be some inventory write-offs. However the bulk of the decline comes from Russia and CIS. Then of course this Habitrol acquisition did have an impact.
- Anubhav Agarwal:** Are you saying that Habitrol margins are significantly lower than the average gross margin?
- Kedar Upadhye:** Gross margins are lower, but net margins are not

- Anubhav Agarwal:** Your last repatriation in Venezuela was in December '14, it has been almost 5-months now. What is your strategy here — how long do you wait for the next repatriation?
- Saumen Chakraborty:** Last one we received about 10 to 12-days back. It has started again, in between there was a period for which we were not getting.
- Anubhav Agarwal:** After you received 10 to 12-days back what is the exposure which is outstanding now?
- Saumen Chakraborty:** Around \$37- 38 million.
- Surya Patra:** The Forex loss that we booked in Venezuela is relating to this particular quarter or is this for the entire year?
- Saumen Chakraborty:** This is as on a particular date balance sheet that we have for our Venezuela subsidiary in terms of translating to the consolidated result of the company. We have decided to take the SIMADI rate instead of the official exchange rate of 6.3. This has been our decision to take that as an abundant precaution.
- Surya Patra:** On the FOREX line, for the full year, in the note you have mentioned in FY' 15, there is an incremental FOREX gain of something like Rs.1,430 million and FOREX loss relating to Venezuela Rs.843 million. You are saying this Venezuela aspect is there above the EBITDA line
- Saumen Chakraborty:** There are many activities wrt FOREX. First being cash flow hedges, next being balance sheet hedges. Balance sheet hedging is done more dynamically, whereas for the cash flow hedge for different markets, we have different kinds of a policies. For US dollar, we do up to a maximum 18-months kind of thing between 40% to 60% of forecasted cash flow, and for Russia we have taken a view that we will go up to a maximum of 30% of forecasted cash flow for a maximum period of 12 months. But for balance sheet, since it is dynamically managed almost squaring up at the end of the month, there would be a lot of FOREX gain which happened out of the buy and sell decisions that you take at the end of the month.
- Surya Patra:** So is it fair to say that the net of these two amounts is the kind of net impact of a FOREX swing in the numbers for the full year?
- Kedar Upadhye:** Yes, Surya.
- Surya Patra:** With regards to the Injectables congratulations for attaining the top 10 position in calendar 2014 as per IMS. Are the three lead products that is Vidaza, zoledronic acid

and azacitadine the real contributors towards this or some other meaningful Injectables are also there from our side?

- Abhijit Mukherjee:** When we refer to the overall prescription, it includes pretty much everything.
- Surya Patra:** What is the revenue that we have booked from the Habitrol this quarter?
- Abhijit Mukherjee:** No, specifically, this is for three-months but broadly, we are in line with overall yearly projection.
- Surya Patra:** \$60 million annually is a number what we had given. Is that in line?
- Abhijit Mukherjee:** Give or take, Yes.
- Saumen Chakraborty:** We are on track.
- Surya Patra:** The margins here at EBITDA level, would it be similar to the kind of blended margin that we are indicating?
- Kedar Upadhye:** Yes, we would not disclose that but quite attractive margins and lower payback period.
- Girish Bakhru:** On SG&A, I know you have commented the control has come from various efforts. How much is the benefit would you have got from Ruble movement, particularly from Russian territory and where do you see this particular SG&A movement going with UCB absorption?
- Saumen Chakraborty:** So overall this year, the SG&A for the organization has been well controlled. Partly there is a contribution of the currency in the emerging markets. Personally, as a CFO, I feel that our control on SG&A has been better and we need to sustain it.
- Girish Bakhru:** Would you be able to quantify like how much of the costs are in Rubles in terms
- Kedar Upadhye:** Girish, we can share that on an offline basis.
- Girish Bakhru:** From UCB have you added more people in India?
- Saumen Chakraborty:** UCB integration is not yet closed, we are hoping to close during the first quarter.
- Girish Bakhru:** On the Srikakulam ANDAs, would you be able to quantify how many from the 68 pending ANDAs are from that site?

- Kedar Upadhye:** We would not disclose that, Girish.
- Ranjit Kapadia:** My question relates to European market. We have seen a very good growth in both Global Generics as well as in PSAI business. Is there any dramatic change in the situation or is this because of the new product introduction only?
- Abhijit Mukherjee:** Entirely due to new products. PSAI in Europe fell in between, however it has come back to an extent. On the Generics side the uptick is on account of a couple of new product launches which I mentioned earlier.
- Ranjit Kapadia:** In PSAI we have introduced any new products?
- Abhijit Mukherjee:** On an ongoing basis we do that. The business model is on continuous renewal of products. We keep filing DMFs and as and when we get traction we keep adding, but I think the uptick here is some of the CPS billings.
- Nitin Agarwal:** My question is on the R&D costs. Given the fact that right now we have an uncertainty on our US growth given the issues around the new product launches. How are you viewing R&D cost calibration going forward?
- Abhijit Mukherjee:** I do not think we will calibrate because this is the future that we will have to invest. We will have to crack the high entry barrier products and get over the future uncertainties. Business without uncertainties and calibration of the R&D cost - I do not think that is the right way to look at this business.
- Nitin Agarwal:** Purely from a mathematical perspective, if during the year, for our US business, the new approvals do not come through, are we looking at a potential case where R&D costs can shoot much beyond the 12-12.5% that we have been guiding to? For the last six months post the inspection and issues coming in through Srikakulam, we have not had any new ANDA approvals. So just wondering if it is having an impact from an overall approval scenario for us as far as any fresh ANDA is concerned?
- Abhijit Mukherjee:** The biggest hit in the form of delay is gNexium. We spoke about it, we did the tech transfer. Beyond that is it very-very significant? The answer is 'no'. We are assuming that in a reasonable timeframe, we will be able to get back.
- Nitin Agarwal:** On Venezuela, when we book revenues now, at what dollar to bolivar rate these revenues are booked?

- Saumen Chakraborty:** If we are exporting our products from India to Venezuela, it will be transferred into the official exchange rate. The adjustment that we have done on the balance sheet position is as on 31st March.
- Nitin Agarwal:** So it will be at Bolivar 6.3 per USD?
- Saumen Chakraborty:** Yes.
- Nitin Agarwal:** So you do not see a risk to this revenue booking assumption?
- Saumen Chakraborty:** No, if we have a seen rate change, we would have taken appropriate measure. Proactively we have taken an appropriate measure for the balance sheet, here we are getting delayed repatriation, but we are getting money.
- Nitin Agarwal:** If I remember in the December call, we mentioned our exposure in terms of repatriation was \$20 million, it has gone up to \$37-38 million now in terms of the amount which is at risk. What is essentially our tolerance — can we go far higher than this, “value at risk” which is there in the market or money at risk?
- Saumen Chakraborty:** This is a very-very profitable market. Normally the way we calibrate is that our inflow from that market is enough to cover up the cost of goods that we are sending to that market.
- Abhijit Mukherjee:** Let me also add here that of course, it will be a little more dynamic decision, no doubt about it, but having said that, if you recall I just mention that in terms of our rankings, we are 20th in value, but 12th in units, and in our discussions with health ministry, which is on an ongoing basis this is noted that while as many other companies are taking price increases in terms of units, some of them are flat or declining and yet growing in revenue. Ours is not the case, probably only in the IMS list of first top-20. Those are noted and we are putting in a lot of efforts, we are extremely hopeful and bullish that our dominance in the market will be retained and this will not come in the way, finally, it is human medicine.
- Chirag Talati:** Similar to Venezuela given the sharp devaluation in Russia on a Y-o-Y basis and year-rates, why is there no impact on foreign exchange?
- Saumen Chakraborty:** In Russia, there is no confusion about exchange rates. As on a particular date, there is only one single exchange rate. In Venezuela, there are multiple exchange rates and there is also a black market rate.

- Chirag Talati:** I understand that, sir. My question is, is there a translation loss on Russia given the sharp devaluation on an annual basis because you have never seen that in any of the quarters?
- Kedar Upadhye:** The receivables are hedged. If you are talking about the balance sheet translation loss, the Ruble receivables are hedged through separate loans, so you would not get it, because it will get offset in the P&L. In the P&L, the value of the Ruble being lower is reflected in the lower sales and lower profits anyway, so are you referring to that balance sheet assets translation or the P&L? As I explain, since it is hedged.
- Chirag Talati:** On Venezuela again, are you hearing any chatter of a full conversion to SIMADI or given the kind of economic situation there in terms of FOREX reserves, how long do you think it is before there can be a full blown currency crisis or this 6.3 can really go down to any rate?
- Saumen Chakraborty:** Beyond 6.3 there is a SICAD rate which is at 12, so one can apply and auction on that rate as well, subject to approval. We have taken the SIMADI as an abundant precaution to reflect the balance sheet. So what will happen to Venezuela will depend on what stand government takes in terms of official exchange rate devaluation whenever they would like to do it. Of course, the entire Venezuela economy is primarily dependent on the crude oil price movement. So far we have not seen Venezuela government defaulted on any loans or anything they have taken from anywhere, but, yes, there has been a delay in certain repatriation, there were a few months we did not get anything, but we have again started getting some. I clarified in a previous question.
- Chirag Talati:** The \$14 million-odd of FOREX loss that you have booked, what does this pertain to? is it the net current asset exposure or is it just cash that was left in Venezuela that you are no longer able to repatriate and hence this conversion or it is just the net current asset situation that has been translated?
- Saumen Chakraborty:** It will be net monetary asset which is inclusive of cash, inventory, minus payables etc,
- Chirag Talati:** But no receivables?
- Kedar Upadhye:** Receivables are included, it is net monetary assets. Cash and receivables minus third-party and amounts payable to India.
- Chirag Talati:** The point I am getting to understand is why is there a disparity between the P&L rate and the balance sheet rate if you are so confident on getting your money back at 6.3?

- Saumen Chakraborty:** Any import that is happening to Venezuela is as per the approvals, which the ministry gives, and they are obligated to give us in the official exchange rate, but any profit that you earn which actually will be in the Retained Earnings in the balance sheet, that similar obligations may not be there, and that is why it calls for two different set of accounting treatment.
- Chirag Talati:** I will just get back to you offline on this.
- Sameer Baisiwala:** Just a quick clarification if I heard you correct in the context of Srikakulam, did you say that you will be able to get back in a reasonable timeframe? I guess you were referring to the product approval starting back again.
- Abhijit Mukherjee:** I said we hope to get back. We have given a response, first update, second update. Broadly the commitments are getting to a closure, there is likelihood that they may like to audit, but beyond that it is anyone guess. So, I am just putting it there.
- Sameer Baisiwala:** When you say reasonable timeframe, are you are referring to a 3-4 months, kind of order of time?
- Abhijit Mukherjee:** Honestly, I do not know. All we are doing is whatever we can do we are doing from our side. I am sure we will hear back.
- Sameer Baisiwala:** Abhijit, you also mentioned that there are four to five meaningful product approvals which you expect this year subject to FDA clearances. So all 4 or 5 of them are contingent on Srikakulam or a couple of them may not be?
- Abhijit Mukherjee:** Most may not be. In general, approvals are still yet to fully pick up. Nexium is probably the biggest on the list from Srikakulam.
- Sameer Baisiwala:** But are all of them from Srikakulam?
- Abhijit Mukherjee:** As I said, most are not.
- Saumen Chakraborty:** Abhijit cannot give a definite timeframe. Most likely there will be a re-inspection or something which can happen.
- Sameer Baisiwala:** On Venezuela if my math is correct, you probably sold about \$135 million odd in fiscal '15. What could this number be next year just directionally if you can?

- Saumen Chakraborty:** We are calibrating. If we would have left it to the local marketing and sales team, the growth potential is very high there. We are calibrating against the repatriation flow which is happening and what kind of exposure we should have. We definitely hope to grow well, but at this point of time, I cannot give any guidance.
- Arvind Bothra:** You have done a couple of small deals in the recent past, but your balance sheet is far much healthier than you have ever been. Are you looking at big ticket transactions, like \$500 million plus particularly in US that you have a high focus on or any other particular markets?
- Saumen Chakraborty:** We cannot rule out, there are multiple diligences that we do at any point of time. We may not be successful every time, but definitely we have M&A as a priority thing in our agenda and we have the capability to fund such kind of M&A.
- Arvind Bothra:** Second thing on the same line just wanted to understand on the U.S. market with a significant buyers consolidation and now we are also seeing possible consolidation in the supplier side, Teva, Mylan and the like, how do you think the market is evolving in terms of Generic pricing environment, how has it been, how do you think it may evolve with bigger players having bigger market share?
- Abhijit Mukherjee:** Markets saw a spate of requests for proposal this year and this will keep coming probably on a yearly basis or 18-months basis. We were apprehensive. We seem to have weathered it reasonably well. We will see how it goes, I would not be very pessimistic. Initially, we were probably very apprehensive, but we would watch. Is it going to be very-very detrimental to the business? Probably not. Having said that, nothing can replace good products. Eventually, if you are in commodities, you are in commodities. If you can crack products which are not fully for all then I think the stickiness is much more.
- Arvind Bothra:** On the Proprietary Products, anything particular in this quarter, also in the full year that we have seen slowing traction?
- Saumen Chakraborty:** In terms of the current sales out of the acquired brands in Promius there have been some adjustment due to some sales returns and all, which had affected.
- Arvind Bothra:** You think pick up from here to a meaningful level in the coming quarters is possible?
- Saumen Chakraborty:** Yes, we are quite confident on that.

- Abhishek Sharma:** On a sequential basis the North America Generics seems to have grown only by \$4 million. This is despite Habitrol coming in for the entire quarter and Valganciclovir launch late last quarter. Just wanted to understand, has there been some impact on one of your key products or is it just broad-based price erosion which has led to this on the base business?
- Abhijit Mukherjee:** During the calendar year closing, the Injectable pull is high from the customers and it impacts. If you look at Q3 and Q4 of last year, it will also show the decline. Current year, the decline was made up partly Habitrol, partly by Valganciclovir, but otherwise if you see Q3-Q4 last year that will provide you the answer of the seasonality of the Injectables.
- Abhishek Sharma:** How many products have you transferred out of Srikakulam?
- Saumen Chakraborty:** Only critical ones we are doing that, we do not do it for each and everything.
- Abhishek Sharma:** So the number would be around 4 or 5 or?
- Abhijit Mukherjee:** Maybe 3.
- Abhishek Sharma:** These are all CBE-30s that you are attempting?
- Abhijit Mukherjee:** Our interpretation is that but I cannot say whether it is CBE-30 or else. We are keeping the same process, same raw materials, similar equipment, and another plant. We are trying to do and provide requisite data. Beyond that there is no clear definition on that.
- Saion Mukherjee:** On an earlier question you talked about M&A as a priority. After some time we are hearing from you on the M&A side. Can you just throw some light how should we think about from a next 2-3-years perspective which are the geographies, which area? What is the broad thought process around M&A?
- Abhijit Mukherjee:** We are on the lookout in the Emerging Markets from two angles – one is acquisition of brands and other is one or two select geographies where we are thinking of trying to make an entry. We will try and look at if anything is meaningful, anything is available. That would be one stream of activity. On the Generics market, it would be opportunistic and capability-driven. Just for the sake of turnover, to do a large deal, would probably not be the philosophy of this company. But if there is good asset coming, there is intelligent way to look at products, if that is being spotted and as in the case of other peer group companies, we will be most keen to look at those.

- Saion Mukherjee:** You talked about this contract rate in Venezeula. How easy it is to take an increase on that just to ensure that we keep most of the profits here through transfer pricing?
- Saumen Chakraborty:** You definitely need to get approval because then you will be able to export in that specific rate and to give you some ballpark thing, in a year maybe you can do it 3 or 4 times.
- Saion Mukherjee:** How much would be the increase?
- Saumen Chakraborty:** It depends, you cannot double or so like that. If there is a reasonable percentage increase, it is fine.
- Saion Mukherjee:** I would understand the end market prices would have gone up significantly. Does that facilitate increase in terms of transfer prices?
- Saumen Chakraborty:** Abhijit clarified that our major growth has been the unit growth and not by really too much price increase. There has been some price increase and even in the transfer price also there has been an increase. We are doing the best possible way.
- Saion Mukherjee:** Can you share anything more on Copaxone from where we were in the last quarter? You have seen the response-Citizens Petition there. How do you feel about it and any timeline that you can share?
- Abhijit Mukherjee:** It is work-in progress. The Citizens Petition may not be the biggest hurdle, we have some work to do, which we are doing. We are working against specific timelines. Would not like to give you those but it is certainly not going to be within a quarter or two.
- Saion Mukherjee:** Do you think the approval is possible by end of this fiscal?
- Abhijit Mukherjee:** Unlikely.
- Partik Balesariya:** From the USFDA front, on overall Dr. Reddy's point of view and the overall Indian companies' point of view, how are things going forward? There is a general feeling that USFDA is slowing down approvals for Indian companies?
- Saumen Chakraborty:** That is not a full and fair perception. This restructuring, i.e. the new way of looking at the file through the GDUFA process which has been outlined, has slowed it down, because there are commitments and there are entry barriers, and there are specific conditions laid out. So settling that down is taking some bit of time and that is taking

a toll on the earlier filings. Since the new filings at least the acceptance or rejection or initial quick queries etc is coming pretty much as per the new commitments. To catch up with the new filings, the toll or the impact is on the earlier filings, let me put it that way.

- Partik Balesariya:** Same case for Nexium and any other big filings as well?
- Abhijit Mukherjee:** Yes. More and more we will see that the approvals or the review process would be based on the requirement of the healthcare system there and not just based on filing date and numbers, etc. They would prioritize.
- Partik Balesariya:** On the pricing front, in US as well as in Europe, in the Generics business, how is the scenario working out for the bigger products which Dr. Reddy has? The scenarios for last 2-3 years and also can you guide something for the future scenarios?
- Abhijit Mukherjee:** Two things: In overall Injectables we are doing okay. As far as the RFPs are concerned, in the earlier part of the discussion I mentioned that we have by and large weathered okay. There is of course single digit erosion, you cannot avoid. Otherwise, life is moving on, this will be part of the generics business. We will have to keep launching if we have to grow ourselves.
- Partik Balesariya:** On the USFDA front can you give some color on the next approvals coming, in terms of the rate of faster approval?
- Abhijit Mukherjee:** I do not understand your question, I mentioned how it impacts.
- Partik Balesariya:** Can you see the dynamics changing in the future?
- Abhijit Mukherjee:** The full efforts are on from the other side. On the new filings as we said we are getting responses quickly. The older filings are getting impacted. But, what will happen probably is the important older files will get again more prioritized.
- Sameer Baisiwala:** Saumen, a quick one on Venezuela. What is the total net monetary assets lying? Then of which how much did you take it to the SIMADI rate?
- Saumen Chakraborty:** Net monetary assets are around dollar 15 million or so.
- Sameer Baisiwala:** So you have converted the entire net monetary asset?

Saumen Chakraborty: Let me clarify this way; this is a translation loss of the balance sheet items from Bolivar to INR. We felt it may not be appropriate to convert everything at 6.3 rate from Bolivar to dollar to get it into the functional currency level. So, we decided that whatever the net monetary asset, i.e. return earnings that you are having in your subsidiary – less – anticipated working capital increase that you will have and then you take that as a SIMADI rate. That is what we have applied.

Sameer Baisiwala: Excluding Nexium for fiscal '16 what is the outlook for the company, both the growth rate as well as the margins from a business trend?

Saumen Chakraborty: It will definitely depend a lot in terms of what kind of currency stabilization happens in Russia and CIS. At the moment it looks good at almost Rs.1.26 to a Ruble. If it goes back to less than 1, then definitely to that extent growing in Emerging Markets will be very tough. Otherwise India is one market where one can predict much better and where we definitely feel we will be growing above the market growth, so whatever market growth can happen we can grow a few hundred basis points more. We are also trying to revive the PSAI business. Overall, we do not give guidance. However we definitely are going to grow, but what is the rate of growth that we will have to see.

Kedar Upadhye: Thank you, all for joining Dr. Reddy senior management for the Q4FY15 Earnings Call. In case of any additional clarification, please feel free to get in touch with the investor relations team. Thank you and Good day.