



Dr. Reddy's Laboratories Limited

Q2 FY13 Earnings Call Transcript

Kedar Upadhye (Investor Relations)

Good morning and good evening to all of you and thank you for joining us today for Dr. Reddy's Earnings Call for Q2 of Fiscal 2013. 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. The discussion and analysis in this call will be based on IFRS consolidated financials.

To discuss the business performance and outlook, we have with today, Satish Reddy – our Chief Operating Officer; Umang Vohra – our Chief Financial Officer; Abhijit Mukherjee -- President and Head of Global Generics and 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 any additional clarifications are required, please feel free to get in touch with the Investor Relations team.

Now, I would like to turn the call over to Umang Vohra.

Umang Vohra (Chief Financial Officer)

Good morning and good evening to everyone. Let me begin with the key financial highlights. For this section, all the figures are translated to US dollars at a convenience rate of Rs 52.92 to the dollar.

I am happy to report strong revenue growth and a healthy margin profile for this quarter. Our consolidated revenues are at \$544 million for the quarter and grew by 27% year-on-year. Revenues from our Global Generics segment are at \$380 million for the quarter and grew by 25% year-on-year, driven largely by the U.S., India and the emerging market territories. Revenues from the Pharmaceutical Services and Active Ingredients segment (PSAI) are at \$149 million and grew by 33% year-on-year. Consolidated gross profit margin for the quarter is at 53.1% and is stable compared to last year as well as the sequential quarter. Gross profit margin for Global Generics and PSAI segments this quarter is at 59.4% and 35.8% respectively. SG&A expenses, including amortization for the quarter, are at \$151 million and have grown by 11% year-on-year. R&D costs at \$33 million for the quarter are approximately 6% of the revenues. EBITDA for the quarter at \$145 million is 27% of revenues and grew by a robust 47% over the previous year. We are beginning to see the effect of operating leverage on our SG&A. During the last full year of FY12, the average SG&A was 30% to revenue and for the current quarter it has reduced to 28%.

In the current quarter, due to the appreciation of the rupee, our forex line contains a reversal of the loss on account of the time value of options which was recorded in the last quarter relating to our option contracts. This reversal significantly contributes to the net forex gain of Rs 34 crores for Q2 of this year. We also booked approximately Rs 100 crores of forex loss in our sales line this quarter due to the cash flow hedges which have matured in this quarter.

As part of our usual impairment accounting checks, we were required to assess the carrying value of certain intangible assets on the balance sheet vis-à-vis their recoverable values. This exercise resulted in a non-recurring and non-cash impairment charge during the quarter of \$13 million pertaining to product intangibles in our Generics portfolio and a goodwill charge on account of our Italian operations.

Profit before tax for the quarter at \$107 million is 20% of the revenues and grew by 52%. Adjusted profit before tax, before considering the impairment charge for Q2 FY13 at \$120 million is 22% of revenues when compared on a like-to-like basis with Q2 of the previous year.

The effective tax rate for the current full year will be in the range of 18% to 22%. Tax rate for the current quarter is at 28%, which is up significantly due to the normalization effect of a lower Q1 tax charge and the effect of impairment on the annual effective tax rate, which amounts to roughly 4%. Profit after tax for the quarter at \$77 million is 14% of the revenues and a year-on-year growth of 32%. Adjusted profit after tax after restating the tax rate for the quarter in line with the full year annual effective tax rate and before considering impairment comes to \$93 million and is 17% of the revenues recording a robust growth of 77% on a year-on-year basis.

Key balance sheet highlights were as follows. Our working capital increased by \$17 million and is largely in line with increase in revenues and its mix across the markets. Capital expenditure for the quarter is at \$35 million. Foreign currency cash flow hedges for the next 18 months in the form of derivatives and loans are at approximately \$600 million largely hedged around rupee 53.45-55.78 to a dollar rate. In addition, we have balance sheet hedges of approximately \$310 million. Net debt at \$269 million represents a net debt-to-equity ratio of 0.23.

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

Satish Reddy (Chief Operating Officer)

Thank you, Umang. On the performance for the quarter I am extremely happy to notice the continuing improvement in the operating performance. There has been an impressive execution by the key geographies of the U.S., India and the emerging markets in the Global Generics segment. PSAI segment also demonstrated aggressive performance for the quarter.

I will now cover some of the specific business highlights for each of our key markets. Please note that in this section, the revenue numbers referred to are in local currencies at respective period average exchange rates.

Revenues for the North America business for this quarter are at \$187 million reflecting a year-on-year growth of 38%. There was also good progress on a sequential quarter basis which was in line with our target and expectations for the quarter.

During the quarter, we launched two key products; metoprolol succinate and the montelukast family of products and further strengthened the Bristol-based antibiotics portfolio with the launch of the amoxicillin range of products. We have been able to lock in share for atorvastatin, metoprolol and montelukast, effect of which will commence in Q3. . The current quarter also witnessed sustained progress in the large limited competition candidates mainly: ziprasidone, tacrolimus, fondaparinux, etc. plus the ramp-up in antibiotics portfolio and products from our Shreveport facility. While our shared exclusivity for ziprasidone got over during the quarter, we still expect it to be a key molecule in our portfolio since there are a limited number of new entrants.

Moving onto India, I am quite satisfied to see our business rebounding to a healthy growth trajectory on a sustainable basis now. Revenues at Rs.388 crores for the quarter represents a year-on-year growth of 12% despite a high base in the representative quarter in the previous year. On a moving annual basis, India business recorded a 14% growth rate and the business continues its momentum towards the market growth rate.

Russian market with revenues of \$58 million had a constrained quarter due to delay in the season pick up. Growth in Ruble terms is a bit flattish after the impressive base of 30% growth in Q1. We have seen a good amount of progress in orders from trade in the current month of October and we remain confident of the seasonal opportunity in the third quarter.

Moving onto the PSAI business, this quarter has seen a phenomenal growth driven by new product launches on the back of patent expiries. Revenues for Active Ingredient segment for the quarter have shown revival as indicated in the previous quarter and we hope to continue the trend for the next two quarters. In addition, revenues from the Custom Pharmaceutical Services (CPS) business have shown significant traction on the back of servicing of a few high value orders. We expect further strengthening from this segment going ahead.

I am also happy to mention the intended acquisition of Octoplus, which is a Netherlands-based specialty pharmaceutical company. We view this as a technology capability acquisition, which will help augment and strengthen our current and future pipeline of complex injectables.

With this I now open the call for questions

Saion Mukherjee Umang on the cash flow hedge losses, do you expect it to come down in the subsequent quarters? Between the Global Generics and PSAI margins, which margin is basically impacted because of these cash flow hedge losses?

Umang Vohra The rate for Q3 and Q4 of our hedges is significantly closer to 52 and slightly more than that. So hedge losses will reduce going forward. In terms of the segments, we are not providing that guidance but it is largely around the Global Generics portfolio.

Saion Mukherjee On Europe strategy. We have not seen any meaningful traction here, what are your thoughts on the Europe business? And on the whole is Europe a profitable business for Dr. Reddy's now?

Abhijit Mukherjee Europe is a difficult geography not just for us but for all other players today. The Generics opportunity has been relatively depressed in terms of making it viable for good. We mentioned last time that Europe is a single-digit percentage of the revenue of Global Generics, and to that extent, while as we are putting effort to ensure that it turns around it will not have a significant impact on the results. Going ahead, the broad strategy is to be focused on the tender based commodity businesses and take advantage of our complex Generics drive in North America and see which products are applicable for Europe as well and see how we can get better value but this is a two to three years activity.

Saion Mukherjee Is it EBITDA positive, the Europe Generic business today?

Umang Vohra : Yes, it is EBITDA positive.

Bino Pathiparampil If I look at your SG&A ex of amortization, it has actually come off quarter-on-quarter despite currency depreciating in the quarter on an average. So is there any reason why that has come off?

Umang Vohra There has been more control that was imposed in markets like Russia, etc. due to the delayed offtake of the season. So some of the lower spending is on account of that.

Bino Pathiparampil Can I have the PSAI growth in constant currency? Some part of those revenues I assume will be rupee revenue, some part will be dollar revenue, some part will be euro revenue, if there were no movements in those currencies then roughly what will be the growth?

Umang Vohra The issue with the PSAI business is that we also do euro billing, we do dollar billing and we do rupee billing as well. The trend nowadays is that some of the customers who you bill to in dollars have plants in India, so you eventually end up billing to them in rupees. So the rupee growth rate I think is about 33% for the PSAI business. What we can do is split that into API and CPS for you.

Kedar Upadhaye Just to add, sequential quarter growth is in the range of 31% in constant currency.

Bino Pathiparampil Both the PSAI and Global Generics businesses look poised for 30% plus kind of growth this year. U.S., especially in dollar terms looks poised for a 30% plus growth next year. When we go forward to FY14 on this strong base, what can we look forward to? I am not asking for a guidance but are we looking at a possibility of a similar growth or is it likely to slow down to 20% level or 10% level? Some random thoughts around that?

Umang Vohra We have indicated earlier that as a result of the strong base in this year, next year we feel we face growth challenges. We have seen a marginal growth in the next year on account of the huge base that we built up in the last two years. We are not giving a firm guidance as yet and probably would not year-on-year, except to say that the same growth may not repeat in the next year going forward.

Sonal Gupta On the U.S. business side, in your limited competition, you mentioned Clopidogrel. Is the pricing in that market really that good?

Abhijit Mukherjee I do not think Clopidogrel can be classified under a limited competition product. It is what we call a backward integrated, solid earning product. We have good market share as probably you are aware of, but it is not a limited competition product.

Sonal Gupta It does not mention Omeprazole. So how is the pricing in that product trended, is there more pressure there or something of that sort?

Abhijit Mukherjee You are talking of Omeprazole and the RX?

Sonal Gupta I guess you have OTC.

Abhijit Mukherjee We have a very fair market share in OTC. It is largely between two players almost equally in terms of the volume share, equally distributed and it is one of our flagship products.

Sonal Gupta So there has not been any significant pricing pressure in that or something like that?

Abhijit Mukherjee No, it is just between two companies.

Sonal Gupta Next on the India business. You might say 12% is on a high base, but it is still lagging. We have seen this business continuously underperform the market for a long period of time or shown sort of a patchy performance. What is really the structural game plan here? What do you think will drive growth in this business over the next two, three years?

Abhijit Mukherjee If you look at the two quarters and take the overall growth for India business, I think we are more or less at the market growth and we think we have covered a long way from the way the business was performing in the last couple of years. So we have come a long way and beyond

just the growth in revenues, the underlying health indicators are certainly providing us a lot of confidence in terms of the track that it is on the recovery path. The attrition has dropped and several other things in terms of our brand focus, prescription data is doing better. So all in all, we feel much better. We are certainly not saying that we are doing very well. A lot of companies are doing better than us but from where we were to where we are gives us a lot of confidence.

Sonal Gupta

But, can you give some granularity in terms of what are you targeting? How do you see this business more of being growing over the next two, three years? What would be the key growth drivers for you? Will it be field force expansion? Will it be new product launches, new therapy launches? How do you see this business doing?

Satish Reddy

One of the things is if you recollect the conversations earlier, we clearly said that the first attempt will be to get back to market growth rates. That was the main thing. Having seen the consistency of that getting closer to the market growth rates based on the internal performance as well as what we see from the IMS figures, we are now in a position to say that we are now putting into raise certain plans by which you will see that we will like to beat the market growth rates. To give granular details of specifically how much is that going to be, what are the things we will do, that is not really been the practice, you would actually see it from the way the growth will happen in the next few quarters and the results will speak for themselves.

Sonal Gupta

So you expect this trend to sustain?

Umang Vohra

Yes.

Girish Bakhru

First question I have is on the RoW markets, though small in size, growth rate has been kind of very robust of late, what exactly is driving that?

Abhijit Mukherjee I think we had mentioned earlier that the strategy we are following is depth in the markets rather than a wider market, different new markets opening up type of a strategy. We are in very few specific markets and I think there is focus in terms of therapy we want to follow, the way we want to move into those markets and that is paying dividend in terms of certainly growing in all those key markets, not just higher, but much higher than the market growth. South Africa, Venezuela - these markets are doing well for us. All these markets, are gaining in terms of size becoming significant, slowly. The most important thing is the growth rate which is clearly ahead of the market rate, which is giving us a lot of confidence.

Girish Bakhru On the US side. We know that there is a FTF launch in Q4. I just wanted to get a sense in Propecia. How do you see the competition post six months?

Abhijit Mukherjee There is one more company coming after six months. For the first 6 months, just us and then six to nine months two companies and post nine months, there would be others coming in.

Girish Bakhru On the OctoPlus side, if you can share, have you also taken in the rights for this interferon product? And if so, what is the strategy with that given that Octoplus was looking to out-license that product? So how would you like take forward that particular project?

Umang Vohra Girish, we are not going to comment on that, because I think we have given an intent to acquire this. The information that you ask for is pretty much in the public domain. We are not going to comment on our intent to take the interferon product forward or not. I think it is there in public domain, you can gain a sense of it.

Girish Bakhru And then just lastly on this ANDAs, we have seen that number of pending approval ANDAs have come off from 80, say in FY12, to 63 now. Is it because some ANDAs are being withdrawn?

Umang Vohra It is because we have had a record number of approvals and launches in the past 4 to 6 quarters and also the strategy going forward for ANDA filing is not really in numbers, but in the quality of filings. So you are seeing a decrease possibly in terms of selective filing and you are seeing an increase in the approvals that we have got over the past four quarters, so the equation is probably bearing out in that front

Sameer Baisiwala A quick question on fiscal 14. I know you would not talk too much about it, but just correct me where I am going wrong. As far as India, Russia, etc., EM markets are concerned, you are growing at double-digit, and as far as the US is concerned, you would have at least two, three of these big ticket items, which are getting only benefit of three months to six months in the current fiscal year. So I think next year put together they can easily contribute \$80, \$100 million which again is a double-digit growth on this year's US based business. Why do you think that fiscal '14 would just be a marginal growth? I know you would not give specific numbers, but should this not be a double-digit mid-teen kind of a picture?

Abhijit Mukherjee Broadly, you are right but the point is that, for the US market we see erosion with new players coming in, getting approvals etc. As they come in, we have to either give up share or we adjust prices. That has to be factored in. Overall, although you are right, that some of the products launch has limited revenue this year, which will go into the entire 12-month thing however we have less new launches next year and erosion intensity, which we have seen this year is expected to continue.

Sameer Baisiwala You are expecting two more niche low competition meaningful launches in fiscal 13. Can you update on that?

Abhijit Mukerjee We are not providing specifics, however we are expecting two initial launches apart from finasteride.

Sameer Baisiwala You remain on course for that?

Abhijit Mukherjee So far.

Nitin Agarwal Umang, on the US business, you mentioned revenues of \$187 million. So that translates into exchange rate of again 50-odd which was there in Q1. So we have not really gained anything much on the currency front even this quarter?

Umang Vohra That is right because our hedges are largely in the same range as the previous quarter. So we see that changing in the quarters, the next quarter and the quarter after that. In fact, in Q4, we should be almost at 52, 50, 53 as our hedge rate..

Nitin Agarwal And how do you see that playing out in the subsequent quarters based upon the hedging which is there right now?

Umang Vohra So the next year is largely in the range of Rs 55.

Nitin Agarwal So if the rupee stays around this level, so we are looking an average realization of close to Rs 55 compared to Rs 50 which is there in the first half of the year?

Umang Vohra That is right.

Nitin Agarwal On the PSAI business, you did mention about the contract research services business doing extremely well. Can you throw some light upon, how do you see the business really playing out in terms of the size of the business, some of the growth performance, and how does it strategically fit as far as medium-term growth trajectory is concerned for the business?

Umang Vohra In terms of the overall size, CPS business is a smaller share of the PSAI business. I would also like to add that this quarter we have had some orders for some large pharma which shows the benefit in the CPS

business and this business is largely linked to such type of orders. The predictability of that is not completely certain as of now. So it would still continue to be a smaller subset of the PSAI business. I cannot give you as of now what kind of growth rate, etc., it would continue at going forward.

Nitin Agarwal And this would be what? About 20%, 25% of your overall PSAI business right now or it will be a smaller portion of that?

Umang Vohra No, I think that is roughly ballpark that number will be.

Nitin Agarwal And lastly on the CIS seasonality part that you mentioned, what was the seasonality issue which was there which has sort of deferred sales for the next quarter?

Abhijit Mukherjee The onset of winter in Russia plays a role in pharmaceutical offtake. Last year, since the liquidity in the market was okay in Russia, September saw a pretty high pull in of pharmacies, which resulted in a muted October last year. This year we see the reverse of that, waited for the first snow, which actually happened two, three days back in Russia, and this month we are seeing very robust growth. So nothing much to read between in this. I think we will be back in Russia this quarter.

Ravi Agarwal Just on the PSAI business, you are mentioning that your cash flow hedges essentially flow to your Generics business. Seeing the segmental growth which you have mentioned for each of these geographies in PSAI, in North America, Europe, essentially, the sense I get is that the benefit this quarter on YoY basis has essentially been on account of the currency and not so much on volumes. Is that the correct assessment for this business?

Umang Vohra I do not think that is right, because the PSAI business has also grown if we look at it in the billing currency terms. So we have seen it grow in

dollar terms, we have seen it grow in euro terms, and we have seen it grow in rupee terms. So it is not all on account of that.

Ravi Agarwal Because the growth rate is around 25%, 26% and you mentioned that the cash flow hedge is essentially on account of your Generics business.

Umang Vohra It could also be because the mix of the business has changed. As I mentioned earlier, we are increasingly selling what we used to sell in the US, to two plants in India of generic companies as well.

Ravi Agarwal The other question is again on PSAI. Remember in the last quarter you had mentioned that there was some flow through of sales to subsequent two quarters, and I guess some benefit of that has come in this quarter, clearly, 33% is a very high number. Is this going to continue for the next quarter at least or it is pretty much happened in this quarter only?

Umang Vohra This should continue at least for the next one to two quarters. I think we have indicated in Q1 that the base would move up. We had a relative constraint in Q1 for PSAI business and the way we are looking at it right now I think we are seeing that the current level of base would probably continue going forward.

Ravi Agarwal My final question is on the SG&A. The half-year run rate, is that a better run rate to assume going forward or should we take the base which we have established this quarter? You mentioned that Russia seen a lower SG&A amount. Just wondering going forward, is this the new normal now 750 crores to 800-odd crores?

Umang Vohra I think the half run rate is probably better than the current quarter.

Prakash Agarwal On other income, I see, the last few quarters our run rates have been around Rs.200 million and this quarter we were at Rs.397 million. So anything specific that has happened?

Kedar Upadhye Prakash, this other income line consists among several items the sale of spent chemicals in API and similar other nature of the operating income. You could probably take the H1 run rate as well for this item.

Prakash Agarwal On Fondaparinux-what is the scenario in terms of pricing and have the production issues being sorted out in terms of more supplies and when is the expected launch in the Europe?

Abhijit Mukherjee Production issues are completely sorted out. We have ample stocks, but the market has broadly settled down between the innovator, authorized generics and us. So at this juncture, I think the share between the three is more or less settled down. There could be a little bit of movement here and there, but otherwise, I think it is a good robust business and no supply issues. As far as Europe is concerned we have filed, so as and when we get approval, we will launch.

Prakash Agarwal When could we see that launch happening in Europe? Is it a fiscal 14 kind of thing?

Abhijit Mukherjee Maybe some time next fiscal.

Ranjit Kapadia My first question refers to the atorvastatin market. We have launched atorvastatin this last quarter. Can you give us some flavor of how the market looks? And second question refers to the domestic market. We have said that in the domestic market we have grown by 12%. However, the Biosimilars business has grown by 24%. So can you throw some light there? Have the flagship brands have grown much on a slower pace ?

Abhijit Mukherjee First on atorvastatin. I think you would recall that we got into the market about several weeks late which had put us on a certain disadvantage against other players. So we had to wait, but we persisted, and we got a reasonable market share compared to the entry versus the timing of entry. So I think we are quite okay on atorvastatin. The second one is regarding Biosimilars and the growth in Indian

markets. So although, Biosimilars is showing very robust growth, it is not a very large percentage of the total pie. So just because Biosimilars grew by 24%, it would be unfair to deduce that the rest has grown lower than 12%. It is a very small percentage of the total sale in spite of the fact that we are banking a lot on the growth of these products.

Ranjit Kapadia Can you give, in atorvastatin market what is the average price fall now?

Abhijit Mukherjee It is a very, very aggressive, like all large big molecules, it is anywhere between 98.5% erosion to 99%.

Krishna Prasad My question is actually regarding Biosimilars. If you could provide an update on the Merck deal and particularly on where we are in Russia with respect to Rituximab? What is the status currently and when we would expect the potential launch or any triggers that we see over the next 12 months for Rituximab?

Satish Reddy Merck, I think it is a bit too early to provide anything because it is an ongoing work.

Abhijit Mukherjee Again, it is a question depending on the regulatory pathway. We have partnership, we are progressing but we cannot say for certain when we will get approval and launch.

Krishna Prasad Are we currently in the process of running a trial in Russia or that has already been completed and been submitted to the regulator?

Abhijit Mukherjee This is a key asset. We are progressing with all seriousness. So I would not be able to provide you with all the details on exactly where it is and how we are strategizing our progress.

Krishna Prasad So just on the US pipeline, I think we have talked about our strategy of complex generics. In terms of the visibility on the pipeline and when we expect some of these launches, is there a sense that you could

provide us, whether would that be in the second half of FY14 or is that more likely beyond that period?

Abhijit Mukherjee It is a very broad question. I think our strategy is to slowly move as much as we can, from plain vanilla products to limited competition products. And that is a journey which will unfold over the next four years and beyond actually. As we speak we have a few good products in our portfolio. We are hopeful of as we move ahead into next year and year after a few more approvals, and then gain more and more momentum. Any specifics on this is just not possible to provide because it will have competitive intelligence and all other aspects of it.

Rahul Sharma I just wanted, how the ramp-up you are seeing in tacrolimus and your other new products and how is lansoprazole OTC shaping up?

Abhijit Mukherjee Tacrolimus, there are quite a few companies, and we have a good market share in this product and we are doing well. Lansoprazole OTC is a bit of a disappointment, because maybe you are aware that the innovators brand as well is not doing very well for various reasons. There is a PPI tiredness - in the market, the pricing which is at a higher-level. So naturally it is expected the store brand also would not do so well.

Rahul Sharma And I just wanted a clarity on market share on your OTC segment and how do you see metoprolol and new products which you have launched which are low competition products faring going ahead?

Abhijit Mukherjee OTC market share you will have it available in the public domain. We are doing well because we are quite specific about our OTC launches. We have quite a few of those first entry advantage and we are quite happy with our share of those products. Metoprolol, again we have come in late, although, it is a fantastic product to be in. So we are slowly carving out our market share. Beyond that, I would not be able

to comment on this, but this is going to be a good robust product for the next year as well.

Rahul Sharma And just wanted what is the status of Olanzapine ODT?

Abhijit Mukherjee Very small product, I mean, nothing much to talk about.

Anubhav Aggarwal For the U.S. business, your quarterly sales ramped up very encouragingly from almost \$158 million in June quarter to \$187 million now. Could you just help with one data point that in terms of the delta from 160 million moving to 187 million, how much of the products that you launched in this quarter would have contributed to this delta?

Kedar Upadhaye Anubhav, we would not be able to give you the numbers, but a large part of the traction has been in existing products. The new launches of metoprolol, etc., would shape up in the subsequent two quarters of the fiscal.

Anubhav Aggarwal And just one related question, on Geodon, would this have been a significant quarter, because it was six months exclusivity and we booked sales for this in the March quarter and the June quarter, so would this also have been a significant quarter from Geodon perspective?

Umang Vohra Not as significant as the earlier quarter. And also since the exclusivity expired this quarter, we also provided for shelf stock and related adjustments.

Anubhav Aggarwal So there were no one-off sales and we should expect this base to be let us say improved upon as we get more market share in metoprolol and atorvastatin?

Abhijit Mukherjee Yes, atorvastatin I think more or less, we have achieved our market share. We will see that unfolding over the next few months in full quarter basis. Yes, metoprolol may be some more share.

Anubhav Aggarwal So atorva contribution was indeed there in this quarter in the \$187 million?

Kedar Upadhye It was marginal, Anubhav.

Kaushik Pal I just want to know what was the OTC revenues this quarter both in USA and Russia and if you can share the growth rate also both on a quarter and half-year basis?

Abhijit Mukherjee OTC in US has not been anything new this quarter. The products which we had launched earlier have been doing well. On the PPI front, omeprazole magnesium as we just spoke has been doing well. The allergy season has been a little slow this year. So maybe it will pick up towards Q3, Q4 of this financial year. As far as Russia OTC is concerned with the onset of the season we will see more traction as we just discussed the season is just taking off. But overall, the non-seasonal OTC products are doing very well in Russia.

Bhavin Shah Just following up with previous speaker's question on OTC, would it be 20%, 21% of your US revenues in rupee terms the way we have seen it in Q1 FY13?

Umang Vohra Ballpark roughly will be the same.

Bhavin Shah And then this impairment charge of about 70-odd crores in operational that we have taken, is there any further carrying value left to that you see something like this recurring now?

- Umang Vohra** There is a carrying value, but we do not think that there should be anything recurring at least over the next two to three quarters.
- Surya Patra** This quarter PSAI has shown a stronger growth number and in recent past possibly we have added the pegulative technology also in this basket and we are again acquiring this Octoplus in that same segment. So are we thinking that the growth in the PSAI will be possibly better compared to the Global Generics business going ahead and possibly the mix would be to some extent moved towards this PSAI going ahead?
- Umang Vohra** The intended acquisition of Octoplus does not have a very significant service business. The logic for that and the rationale for that is to help us with our drug development capability. And so that will not be a significant contributor to the PSAI growth. PSAI would continue to grow and this Custom business would continue to grow based on contracts that we are generating or lock-ins that has happened with key customers.
- Surya Patra** Was there any chance that this PSAI share to some extent moved forward going ahead compared to Global Generics business?
- Umang Vohra** Let me put it this way. I do not think it can be bigger than the Global Generics business. Like we have indicated earlier in the call, we see the current quarter trend that would continue for the PSAI business over the next two, three quarters.
- Surya Patra** On the other operating income, can you please repeat what are the components of the other operating income?
- Kedar Upadhye** The nature of this line item is income from liquidation of spent chemicals in the API business largely among other items of operating nature. So this quarter may have been little bit higher. You could refer to H1 run rate, for you to model it going forward.

- Surya Patra** In the net finance income, whatever we have reported this 37-odd crores, in that forexgain is 18-odd crores and the net interest income is 3 crores. The balance whatever is there, what is that?
- Umang Vohra** The forex gain in that line would be about 34 crores.
- Sonal Gupta** Just continuing on the US ANDA, just an observation, is there a strategy in terms of you filing less Para-IVs, is that a correct observation to make?
- Abhijit Mukherjee** Broadly, we are in that direction for two reasons. One is there are less Para IV opportunities as such and just filing frivolous Para IV attempt does not sort of return any money. So the focus is largely on limited competition products. Having said that, if there are opportunities out there we find of course we will go ahead.
- Sonal Gupta** But none of these limited competitions you are not seeing Para IV opportunities in these limited competition products, are you?
- Abhijit Mukherjee** Not as 180-day types. The complexity is in terms of technology or other aspects of needing a clinic and several other things. So this would have a higher lifecycle than six months. There could be some patents we will be challenging, but the objective is not to flash 180-day type of revenue.
- Sonal Gupta** And just again on the US business, do you still expect to meet your guidance of about \$900 million of revenues for this year? And I mean do we see a significant step up even in the second half from US revenue?
- Umang Vohra** We do not give guidance for the US specifically, we ballpark indicated that it would be tracking at the rate which could be suggestive on an annual basis of about \$900 million but we are still holding to the \$800 million to \$900 million range for the US business, depending on the

approvals that we get for products that are hopefully going to be launched in the next two quarters.

Sonal Gupta In that case do you expect further step-up?

Umang Vohra In a way, you could say that, because there will be new products launched but you will also have possibly new entrants entering existing products.

Sameer Baisiwala Can you just share your thoughts on the evolving domestic pricing policy, and specifically whether the pricing mechanism would be cost based or what is the market price for the NLEM drugs?

Satish Reddy Sameer, we still have to wait for what the decision is going to be, because it is not going to be easy, in the sense that there is some kind of an undertaking from the Group of Ministers who are finalizing the policy, they have to come out with what the policy mechanism has. Whether it is going to be cost based or market based. We believe it is going to be market based because that is what really makes sense in terms of benefiting both the consumers as well as the industry. So we still have to wait and see because once the policy comes out, there will also be some opposition to that from the people who are also fighting the case through a petition. So I think the rollout of the policy is something we still have to wait and see for the timeline because the first step is what kind of a mechanism is going to be used, the second thing will be when it will actually be implemented. So I would still put that it is going to take some more time than what people actually anticipate.

Sameer Baisiwala But just in case there is a standoff between the legislature, which is Group of Ministers and the judiciary which is Supreme Court. I mean, who is the overriding factor, is it the Group of Ministers or is it the Supreme Court? Who's view gets finalized?

Satish Reddy What I am pointing out is that there are two steps to that, right. So first is the government based on the Supreme Court's observations and the guidance which it has provided and how it will come out with the policy because it is not as simple as saying that the Supreme Court asked for cost based, that is not what we believe. So the first step is that once having overcome that because ultimately policymaking is in the government's prerogative, which we will have to wait and see what comes out. All I am trying to say is even if the government were to prevail over what was required, it will still be challenged in court by the activists.

Sameer Baisiwala The other question is, what percentage of your US sales is now coming from Bachupally plant. This is just to understand your risk diversification?

Abhijit Mukherjee A significant portion. Having said that new plant is just operational at the moment and the objective is certainly to disperse risks. But at the moment a significant portion.

Sameer Baisiwala Finally, assuming you do Capex of say \$100, \$120 million this fiscal, can you share with us how would this be spent location or Greenfield, Brownfield, API formulations?

Umang Vohra It will be largely be SEZ oriented spent. It would also be a spend that we are putting together in some API programs on account of either vertical integration or lock-ins. So broadly, the split Sameer is on the new projects, this could be in the range of almost 60% to 70% and maybe even more than 70%, including SEZ, new products in API for which we are expanding capacity, etc.

Kedar Upadhye We thank you all for joining Dr. Reddy's management on this earnings call. I request to get in touch with the IR Desk for any pending queries. Thank you.

Note: Necessary edits have been made in this document to correct for any factual inconsistencies.