Dr. Reddy's Laboratories Limited
Second Quarter Fiscal 2011
Earnings Call

Kedar Upadhye *(Investor Relations)*

Good morning and Good evening to all the participants and welcome to Dr. Reddy's Earnings Conference Call for the second quarter ended September 30, 2010. Earlier this afternoon, we have released the unaudited consolidated financial results under IFRS and the same are also posted on our website. We are conducting a live webcast of this call and the transcript shall be available on our website soon. The discussion in this call will be based on IFRS Consolidated Financials. To discuss the business performance and outlook, we have on the call today GV Prasad, our Chief Executive Officer, Satish Reddy, our Chief Operating Officer, and Umang Vohra, our Chief Financial Officer. Please note that today's call is copyrighted material of Dr. Reddy's and cannot be re-broadcast or attributed in press or media outlet without the company's expressed written consent. Before we proceed with the call, I would like to remind everyone that the safe harbor language contained in today's press meeting also pertains to this conference call and the web cast. I would now like to turn the call over to Umang Vohra, our Chief Financial Officer.

Umang Vohra *(Chief Financial Officer)*

Thank you Kedar. Good morning and Good evening to everyone, thank you for joining us on a Saturday. It has been little difficult this quarter to schedule a call on account of certain time commitments of our Board members , so we had to finally do this on a Saturday. On behalf of the management team, I welcome all of you on the call today.

Performance for this quarter has been certainly encouraging after a slow start to the year in quarter one. Allow me to take you through the key financial highlights for this quarter. All the figures referred to in my section are translated to the USD at the convenience rate of $1 US to 44.56 INR. For the purpose of business highlights in Satish's section, the analysis is based on performance in respective local currencies. The financial highlights are as follows:

Consolidated revenues for the quarter at $420 million represent the year-on-year growth of 2% and a sequential growth of 11%. Revenues for the first half of this fiscal represent a marginal decline of 3% due to weaker Q1 that we saw in this year. Revenues from our Global Generics business at $307 million for the quarter represent year-on-year growth of 8% and sequential growth of 15%. Revenues for the first half of the fiscal are flat on year-on-year basis. Revenues from the Pharmaceutical Services and Active Ingredients segment at $104 million for the quarter represent decline of 14% over last year, while sequentially growing at 3%. The year-on-year decline for half one is at 11%.

Gross profit margin for the quarter is at 53% versus 47% in the previous year's quarter. The increased margin is largely on account of the following: a) Contribution from new products of Tacrolimus and Amlodipine Benazepril launched in the US in the previous quarter b) A better product mix on account of higher Russia and India sales and c) one time inventory provisions of approximately $12 millions in the Global Generic segment which were made in the corresponding quarter of the previous year. Gross margins for the Global Generics and Pharmaceutical Services and Active Ingredients segments are at 64% and 22% respectively.

SG&A expenses include amortization charges for the quarter and are at $128 millions. This represents year-on-year increase of 7% and sequential increase of 4%. The increased SG&A expend is majorly on account of higher field force in India and Russia and an increase of OTC expenditure in our Russia business.

EBITDA at $95 million for the quarter is at 23% of sales and has registered year-on-year growth of 12%. EBITDA for the first half of the fiscal is at $172 million at 22% of sales. The effective tax rate for the full year is working out to about 12% in view of the increase in weighted deduction on the R&D spends granted by this year's Union Budget. Profit after tax is at $64 million and is represented at 15% of sales and shows year-on-year growth of 32%. Profit for the first half of the fiscal is at $111 million and is at 14% of the sales.

Moving on to the balance sheet, our operating working capital increased by $15 million during the quarter. The increase is on account of inventory build-up in anticipation of various key launches in our US market. Capital expenditure for the quarter is at $49 million and $91 million for the first half of the year. Foreign currency cash flow hedge options for the next 18 months stand at $621 million as of today and $483 million as of the balance sheet date, largely in the range of Rs. 47 to Rs. 49 to a dollar. We proactively hedge our forex exposures and we believe the impact of appreciating rupee will be adequately balanced by our hedging strategy. Our current net debt is at $186 million. At this, the net debt to equity ratio works out to 0.18.

I will now request Satish to cover the business highlights.

Satish Reddy *(Chief Operating Officer)*

Thanks Umang.

We are pleased with the profitability improvement in this quarter. Global Generics recorded revenues of $307 million. Strong growth in the branded generics market helped offset the decline in European generics. Sequentially, North America grew on the back of higher contribution from the products launched in the previous quarter. Highlights for the key markets of Global Generics business are as follows:

To begin with **North America.** With revenues of $95 million for the quarter, in North America we have displayed consistent sequential growth over the last four quarters. Despite the reduced contribution from fexofenadine in second quarter, we registered year-on-year growth of 7% and sequential growth of 11%. This was largely led by the new products Tacrolimus and Amlodipine Benazepril. In addition, we are seeing a good ramp up in the market shares of key vertically integrated products of our base business portfolio such Ciprofloxacin, Omeprazole and Fexofenadine. We recently have commenced significant shipments of Omeprazole mg OTC to new customers and expect our market share to show visible improvement in the coming quarters. Despite the slow start of this product in earlier quarters, customer and shelf space commitments are in place and this product is now on track to become a significant portion of our base business portfolio. During the quarter, we have filed five ANDAs and we now have 74 ANDAs pending approval at the USFDA, of which 13 are Para-IVs and 12 are first-to-files.

India revenues for the quarter are at Rs. 316 crores or $71 million which represents a 25% year-on-year growth and 14% sequential growth. This performance was led by the volume growth of 16% and contribution from new products launched over the last 12 months of 9%. During this quarter we have launched 13 new products in India and to build momentum on launches, we are working on several in-licensing opportunities. The launch of our third bio-similar darbepoetin under the brand name of Cresp during this quarter has strengthened our niche portfolio. Our current portfolio of biosimilars is already close to 5% of our India sales; in addition we expect approval and launch of a fourth biosimilar in the financial year.

Moving on to **Russia**, the revenues are at $49 million recording strong year-on-year growth of 28% and sequential growth of 8%. The performance is led by volume increase of 31% for the key brands of Nise, Omez, Cetrine, and Ketorol as well as new launches during the quarter. Consistent growth in

Russian market over the years has helped us improve our rank in this market to 12th as per Pharmexpert data for the year to date August 2010. Our secondary sales growth of 25% in value and 37% in volume terms for year to date August 2010 exceeded the market growth of 16% in value and 18% in volume terms during the same period. Our focus on expanding the existing prescription and OTC portfolio continues. Recently, we signed an agreement with Cipla to market some of its approved products in Russia. We envisage steady growth from this market while continuing to maintain healthy working capital position.

For **Europe generics**, revenues are at Euro 37 million. betapharm recorded revenues of Euro 27 million representing year-on-year decline of 14% due to lower contribution from vaccine sales in this year and also price erosions caused by the tenders. The SG&A optimization resulting from a number of actions taken in the previous year have improved the operating profitability of betapharm. Our success rate in the recently announced tenders has also improved with higher success for products where we are vertically integrated. We are now in the process of bidding for the new AOK tender which covers products worth market size of over Euro 800 million.

Moving on to the **PSAI** business, revenues are at $104 million, these are flat sequentially and have declined by 11% over the previous year. The decline is largely attributable to the Pharmaceutical Services segment and caused by lower order flow due to adverse macro economic conditions globally. Active Ingredients business have remained flat due to the delay in some planned launches and continuing pricing pressure. It's likely to pick up in the second half as a number of new products are scheduled to be launched.

I now hand over to Prasad for his closing comments.

GV Prasad *(Chief Executive Officer)*

Thank you Satish.

As Satish mentioned, we are quite pleased to notice the improvement in our overall performance in this quarter. We expect the performance in the second half to exhibit continued improvement in our North American generics as well as our Active Ingredients business on the back of a number of key approvals and launches. We are on track to achieve our RoCE guidance for full year which was in the range of 18%-22%.

We continue to work towards our FY13 aspirations and we have been making great progress on the various initiatives to build the trajectory upto FY13 and beyond. We continue to invest in capacity expansion projects and scaling up the marketing investments in our focus markets. Our focus on limited competition opportunities from the US has started yielding results. The launch of lansoprazole this week signals our strength in developing and monetizing difficult to make formulations. I look forward to an increasing contribution from such limited competition launches in the second half of this year and thereafter.

Our R&D activities have gone up significantly this year in the Global Generics as well as Proprietary Products businesses. In the first half, we filed 9 ANDAs in US and we expect to file higher number in the second half. In our Proprietary Products business, there are several products where we are in the initial stages of discussion with the USFDA and we have commenced the Phase III clinical trials for one significant asset in the dermatology area. In the NCE segment, for Balaglitazone, we are currently exploring for the partners who have financial resources to take this project forward. Our CETP program continues to progress well and we are in discussions with potential collaborators on the possible next steps. Going forward, the Proprietary Products team plans to file at least 2 INDs per year.

Our biosimilar product pipeline has yielded three products for the less regulated markets and we have commenced our efforts for the development of the strategy to support European and US registrations of Reditux. Reditux has been launched in Chile and is now marketed in 7 countries around the world. We are also in the process to file and obtain approvals of approximately 30 registrations in various markets for this product. The opportunity for Reditux validates our view that Emerging Markets represents a very significant strategic opportunity. Our existing partnerships and

ongoing alliances will enable us to get a strong foothold in these markets through which we can leverage the pipeline that is unfolding.

Before I end, I would like to give you some new updates. About 5 years back, we had entered into an agreement with ICICI venture for the development and commercialization of a portfolio of 36 generic products for the US. We received upfront amount of $23 million in exchange for royalty rights for these products for a period of 5 years from the launch. This partnership has resulted in some very significant product opportunities for us. We have now purchased ICICI Venture's rights to receive future royalties on these products for a consideration of Rs. 268 crores or $60 million.

We had entered into the South African market in 2003 through a 60:40 joint venture with a local partner Calshelf. During this quarter, we increased our stake in this joint venture to 100% after acquiring the entire stake of our partner. South Africa is an important market for us and we are looking at increasing our presence there, especially in the areas of CNS, oncology and women's health.

During the month of November, the USFDA's planned inspection of our partners' facilities as part of the ANDA review process for fondaparinux and this should help us determine the next steps for fondaparinux in terms of regulatory approval. With respect to the litigation for fexofenadine pseudoephedrine, earlier this week, the judge has rescheduled the trial date towards the end of January 2011. We have submitted additional experimental data and expert reports in support of our case and we continue to feel extremely positive about our position.

With this, I would like to end and thank you all for your attention. We can now begin the Q&A session.

Q&A Session

Jesal Shah Hi, just one quick question, actually on your comments about the level of preparedness for growth up to and beyond fiscal 13, you talked about some NCE projects, if you could just give us some idea about where these projects are currently. This seems to be the first time that you have talked about NCE out licensing deals.

GV Prasad The FY13 planning doesn't include any significant revenue from NCE deals. As you are aware, balaglitazone, we are looking for partners to take the product forward, but you have to temper that with the various uncertainties around glitazones, so I wouldn't place very high emphasis on the prospects for this molecule. We have another couple of assets, but the INDs that we talked about are not just NCEs, but are also incremental innovation, differentiated formulations, which meets some unmet needs and we are starting to get traction on these projects and the goal there is to file two INDs every year. Going forward, these may or may not be monetized to an external partnership because part of that form our organic plan for launching a branded business and developing that in US.

Jesal Shah Right. You also talked about CETP products?

GV Prasad Yes CETP is a product we have, I think we are in discussion stage, but it's too early to say anything about that.

Jesal Shah Okay, thank you.

Bino Pathiparampil Yes, I have two or three quick questions, first on betapharm, are you seeing the revenues stabilizing at the current level or do we see some more volatility, it had in the quarter ahead?

GV Prasad So if you could limit your questions to one at a time, it will give everybody an opportunity to ask those questions, so I request you and other partners to limit yourself to one question at a time. betapharm, we feel good about betapharm's performance. We have completed the cost rationalization. We

have moved products, a significant number of products which are most important part of our portfolio to India and we are doing more such products. So we are positioned to compete well in this market. So we expect to grow in this market, but as you are aware, this is a tender business, where outcomes cannot be predicted very effectively, but overall we are pleased with our performance there. And I do think we have the basis to grow the business from here onwards on the back of new product launches coming up in next year.

Bino Pathiparampil You are essentially saying it has bottomed out?

GV Prasad I am saying that, but this is a commodity market, you have to understand that, competition is on price.

Bino Pathiparampil Okay I will join back the queue for other questions.

Abhay Shanbhag Sir, you have given update on fondaparinux and Allegra D-24, can we assume first quarter calendar year 11 launch for both these products going forward?

GV Prasad I think the issues in both products are little different. Fondaparinux, the uncertainty is only around approval by the FDA. The FDA has announced inspecting two of our partners for this product, one of them who make a starting material for the product, another one which is finished dosage facility. Post this inspection, I think approval should proceed assuming everything goes well. So that's the uncertainty around that, but it's less of an uncertainty there. The Fexo-Pseudo case has been scheduled for January and there are number of variables there, so I cannot predict when the preliminary injunction will be lifted. It's our intention to launch as soon as the preliminary injunction is lifted. It could be lifted post January hearing and we are even trying to see if we can get it lifted earlier. So that has less amount of predictability from our perspective. But these are two key events to watch out for.

Abhay Shanbhag Right. And sir, in Sanofi, they were indicating that they are looking to take the product OTC, do you have any such timeline as to when they are looking to do with OTC, will it be first half of next calendar or that could be later?

GV Prasad I mean our estimate is that towards the end of next calendar year is what the switch may happen.

Abhay Shanbhag Okay fine. Thank you sir I will join the queue.

Chirag Talati Yes hi, thanks for taking my question. One question on betapharm, we heard competitors saying that the third quarter tender is coming out, have seen severe pricing pressure and that for fourth quarter of this calendar year and for next year onwards, Germany, is likely to see double digit pricing decline. Can you comment on what kind of pricing pressure you are seeing and whether that will impact your ability to win tenders going forward?

GV Prasad No, for the products that where we are vertically integrated and where the production has been moved into India, we feel confident about our ability to compete. And part of the business is tender, part of the business is non-tender, in a blended fashion, we find the margins quite acceptable and healthy.

Chirag Talati And going forward, I mean do you think even in terms of margins, your margins would have bottomed out this quarter?

GV Prasad You know I cannot predict the behavior of the competition on this, but we feel comfortable the way we are able to compete in this tender.

Chirag Talati Okay, thanks, I will get back in the queue. Thank you.

Sonal Gupta Hi, I had a question on Russia, regarding there's some concerns with some distributors in that market, specifically for Protek. Could you just talk about, are you seeing the channel in Russia and what's outlook there in terms of for you?

Umang Vohra So as we have commented earlier Sonal, we keep our credit limits very tight in Russia and we keep them at about 90 days. We have not seen any significant increase in these limits with any of the distributors you mentioned or for any of the other distributors in that market, so we are not seeing generally any reason for us to be concerned right now on any of the issues regarding distributors' liquidity.

Sonal Gupta Okay, thanks. I will join back queue. Thank you.

Prakash Agarwal Yes Good evening sir. A question on PSAI segment, we have seen this segment de-growing since last two quarters and also if I see the margins just comparing with the 20-F filing, 32% on margin seen in FY10, currently you report margin of 22%, could you give us some highlight in terms of how should we look at this business segment which is 25% of your revenues?

GV Prasad Going forward, I think the business growth and profitability will depend on the products we launch. So along with the large wave of patent expirations that we are seeing, certainly we should see growth in this segment. The de-growth has happened due to a number of reasons for the last two quarters which I don't think on a secular trend, but really something I would consider that we will reverse in the next couple of quarters. So I think we are seeing a significant number of launches in the next few quarters and this is tied to customer lock-ins we already have in place. So I think while there is some reason to be concerned about the de-growth, I don't think it is trend at all.

Prakash Agarwal And sir, any color on margins where the margins drop so much?

Umang Vohra Yes, so I think it's linked to sales, because there is a relatively high amount of fixed cost in this business and if sales begins to fall that results in a lower margin plus there is a price erosion that happens year-on-year and because of that price erosion, generally the margins begin to fall. Also there has been some inventory provisions that we have taken which are not material, but will also affect margins in some way.

Prakash Agarwal So what could be the steady state of margins, is it the FY10 margin we should look at or the current?

G. V. Prasad See I think in a business like the PSAI which is a commodity business, driven by launches and a lot of price competitions, we should not assume steady state margins, so there will be fluctuations quarter-on-quarter. But on the overall annualized level, I think if you take the last year's numbers, look that for every quarter, it will be tough to match.

Prakash Agarwal Perfect, thank you sir.

Nimish Mehta Yes hi, thanks for taking my question. One quick question, we have seen that in Prevacid generics, there is already an OTC launch happened by Novartis, so how do you think this market in general will play out between generics and OTC?

Umang Vohra So I think in our opinion, both OTC and generics co-exist and we have seen that in several other products like even omeprazole, they co-exist. So I think it's an opportunity for us, if some of the other products become OTC, because we also have an OTC arm which can begin to launch these products and so we are not overly concerned about this.

G. V. Prasad OTC is always a smaller strength, lower strength and other strengths which will always remain prescription.

Nimish Mehta And the sales generated from the higher strength is higher in this case as in Prevacid?

G. V. Prasad We don't have the specifics; we can take that offline to give you the details of the sales breakup.

Nimish Mehta Okay fine, thanks. I will join back the queue.

Sameer Baisiwala Hi good evening. Just a question on the biosimilar portfolio, you mentioned about the fourth possible launch this fiscal, and that this portfolio is gaining scale, how do you want to take it forward specific to the regulated markets?

GV Prasad We have started work on regulated markets. We have had our first meeting with the regulator on rituximab. So we are progressing our discussions without worrying about tying up with a partner. So we are building a team in the US for clinical development and regulatory leadership and we will start the processes of developing our registration strategy, clinical trial design, all of that. And we are starting our work with rituximab right now.

Sameer Baisiwala And you are working first on US or first on Europe?

GV Prasad I think they will go almost in parallel or in telescope starting in Europe.

Sameer Baisiwala And you are not looking for a partner, something like Biocon-Pfizer deal?

GV Prasad I don't know the specifics of the Biocon deal, but we will need a partner to market the products, especially in Europe, we don't have the ability to take this on our own. US also we are likely to have a marketing partner.

Sameer Baisiwala Okay so I can just ask a second question, on ICICI venture deal I thought it was self liquidating by way of royalty payment and we are almost towards the end of 5 years, so why is this Rs. 268 crores that we need to pay to acquire their rights?

G. V. Prasad I think the deal was for 5 years from the launch of each product, so there were numbers of products which have not run off the course of 5 years, so we estimated the value of this and mutually agree to buy it back.

Sameer Baisiwala Okay. Thank you very much.

Ritesh Shah Hi Good evening, thanks for taking my question. I just want to know, on the US business, for the quarter, we have grown sequentially about $10 million in sales and this is despite probably having a full impact of Lotrel as well Tacrolimus coming in, so is there some amount of problem still with their core business, or the recurring business on the US?

Umang Vohra No, I think we are seeing the core business recovering very significantly. We have seen market share expansion in Omeprazole, we are seeing in

ciprofloxacin, so the core business seems to be coming back. We are also seeing some betterment in fexofenadine base business as well. And the new launches if they continue and we are stating a couple of them this quarter, I think we should not be too concerned about the business. We do expect a further sequential growth going forward in the US as the core business begins to recover.

Ritesh Shah On the product that you launched so far, the product in particularly say Q2, do you see a lot of scope of still growth on these numbers, with the same product basket?

Umang Vohra So I think the one that we have launched in Q1, Tacrolimus and Lotrel, those probably are going to have reached a state of steadiness in the revenues that should not show significant growth from where we are right now.

G V. Prasad Omeprazol magnesium though showing good traction now.

Umang Vohra Our OTC product will show more traction now.

Ritesh Shah Thanks sir.

Bino Pathiparampil Yes hi, just a follow-up question on ICICI venture deal. Of the 30 products, how many have you launched so far and what is the timeline for the launch of the remaining ones?

Umang Vohra Bino, we have launched approximately less than 14, I think we have launched about 14-15 products on that deal.

Bino Pathiparampil Okay, and then the remaining would be launched in near term or is it going to take more time?

Umang Vohra Well it's part of our pipeline and so it will be this year, next year, year after that, there will be launches.

Bino Pathiparampil Sir, what was the motive behind buying back the rights?

Umang Vohra Well I guess it was contractually bound, that was one. The second thing is either party looks at this has different interpretations of the pipeline or we have decided that in our view the pipeline is better in our hands.

Bino Pathiparampil Okay right. And just for housekeeping, what is the full year tax rate you are looking at?

Umang Vohra We are looking at about 12.5%.

Bino Pathiparampil Okay, and will the direct tax code have any major impact on tax rate next year or year after?

Umang Vohra It obviously will have an impact, because what the government has done is increased the weighted deduction, at the same time, they have also introduced MAT as the tax that needs to be paid, so it will have an impact in the future.

Bino Pathiparampil Okay thanks.

Rahul Sharma What is the market share that we have garnered in Lotrel and Tacro in both these segments?

Kedar Tacrolimus is close to 30%, Rahul, and Lotrel is close to 8% in generic market shares.

Rahul Sharma Okay. Do you see reasonable ramp up in both these products in terms of market share?

Kedar There could be marginal improvement Rahul, because we have seen a couple of more approvals in the both the products, so we don't expect the substantial improvement from here onwards.

Rahul Sharma On the loans part, I just wanted to know how much is the current repayment and what is therefore working capital in long term loans?

Umang Vohra So the current long term loan is about Euro 120 million and other than that everything is short term and working capital linked.

Rahul Sharma Okay current long term loan is Euro 120 million?

Umang Vohra That's right.

Rahul Sharma And what is working capital?

Umang Vohra Working capital would be the balance which should be approximately $150 million.

Rahul Sharma Okay. And what is due for repayment in the current year?

Umang Vohra It's about Euro 14 million a quarter, that's the tracking rate for the long term loan.

Rahul Sharma Okay, thanks.

Ravi Agarwal Thanks Good evening. Just a question on the I-Ventures deal, of this 14-15 products which we have launched, what could be the tentative royalty which we might have been paying to I-Ventures and where would that be captured in our expenditures?

Umang Vohra We don't have a separate disclosure for that, but what I can request you to do is probably look into our filing that we have made in the previous years with the SEC, you will get the details there.

Ravi Agarwal Okay. And just a question again, the valuations, which you have asserted for the payment, I mean was there some external valuators who have done this, or was it an internal exercise?

Umang Vohra It's agreed methodology at the time of the agreement and this is basically, if you were to look at it, a valuation of the royalty that was payable to them which has been brought forward and discounted.

Ravi Agarwal Okay. Thank you

Neelkanth Mishra Yes this is a question on rituximab. You mentioned you have 5% of India sales coming from biosimilars, I thought last quarter you mentioned it was close to 10%, did I get the number wrong?

GV Prasad Looks like there has been some mis-communication.

Raghavender R So Neelkanth that 10% mentioned last time was our oncology portfolio approximately, and this 5% is only biosimilars.

Neelkanth Mishra Understood. And rituximab you said is selling in 7 markets right now?

Umang Vohra Yes.

Neelkanth Mishra If I remember right, in earlier interactions you had mentioned that even for clinical trials, you would need a partner because the design of the clinical trial would be very much dependant on how the products are going to be marketed. Has that changed and any reasons why that has to change?

GV Prasad Well one significant change is that we decided to build a team in New Jersey of professionals who can help us in this process. So we don't want to discount value prematurely, we want to build the team. If you get the right kind of a deal we do it, but we do not get pushed into a deal because we don't have the expertise to do this. So we have taken that decision and we have started taking steps to hire people and build external relationships with consulting companies to help us do this.

Neelkanth Mishra Thank you. And one last question on rituximab, there have been ongoing concerns perhaps also triggered by the innovators that your version of rituximab is not very similar to the innovative product, do you see any concerns around that?

GV Prasad I think this is part of the defense actions by innovators, this is to be expected and we have enough scientific evidence, enough clinical evidence and enough experience with product which gives confidence of this molecule.

Neelkanth Mishra Thank you.

Ranjeet Kapadia Sorry for joining late for the call, I just wanted to have an update on the domestic market. You have done about 21% growth and what is the expectation for the domestic market and how you are going to take it further?

Umang Vohra We are looking at 18% - 20% growth on the full year basis, Ranjeet, and our strategy around introducing differentiated formulations plus also supporting the access of care in Tier 2 and Tier 3 cities will continue.

Ranjeet Kapadia And what about the Russian market?

GV Prasad Sir I think if you want an update on these markets, you should read our press release and then may be have an offline conversation.

Ranjeet Kapadia Sure thank you. All the best.

Krishnendu Shah Yes thank you for taking my question. Mr. Prasad did mention about the branded play in the long run, so could you just throw some light on it? Asking on this Balaglitazone in the regulated market, will you be following the biosimilar or is it a BLA?

GV Prasad I think your question has several parts to it. Company has a long term aspiration of building a branded business in regulated markets but that is not limited to biosimilars or biologics alone. But also on differentiated formulations as well as novel compounds in the very long term. As far as biologics are concerned, today our strategy is to go with biosimilar and not a BLA.

Krishnendu Shah But the first step in your branded would be the OTC products, is that understanding right?

GV Prasad No, it's likely to be differentiated formulations in the dermatology segment and then moving on to other areas.

Krishnendu Shah Okay, thank you.

Abhay Shanbhag Sir with clinical trials now, expected on the biosimilar front, do we see R&D cost going up significantly in future?

GV Prasad Clinical development cost will be significant, but not immediately, but at the overall level, the R&D spend should be in the range of 7% or so.

Abhay Shanbhag Okay. And in terms of rituximab, can you give some highlights as to would you look at a launch US, Europe in the next three to four years, or would it be much, much longer because a filing may take much longer than two years?

GV Prasad Too early to give you that kind of timeline. We just had one meeting with the regulator, so it's too preliminary now to give you the timeline.

Abhay Shanbhag Last question sir, in South Africa, on this JV – you increased the stake to 100%, what's the sort of revenues you are getting from this market right now?

Umang Vohra This is about, we should be closing this year with about close to $15 million odd, last year was about $12 million.

Abhay Shanbhag So the $15 million was the JV revenues or it was for your 60% stake?

Umang Vohra The JV revenues.

Abhay Shanbhag Okay fine. And what price did you increase the stake?

Umang Vohra At $11 million approximately.

Abhay Shanbhag Okay fine, thank you.

Nimish Mehta Yes thanks again. I just wanted to know what is the exposure of Russian sales to reference pricing as of now?

Kedar The impact that reference pricing had on sales in Russia is not more than 5% approximately to the overall portfolio.

Nimish Mehta 5% last quarter?

GV Prasad 5% is impact.

Nimish Mehta Okay last quarter you mentioned to be about 40%-50%.

Umang Vohra You are right, that is the amount which is the essential drugs composition of our portfolio, not all of that is under price control, which is why we are telling you that it's about 5% is what has been impacted.

Nimish Mehta Okay. And one quick question on how many products are we sourcing from India as far as betapharm goes, I mean in terms of percentage of sales for betapharm?

Umang Vohra About 40%.

Nimish Mehta And is it likely to go up, what are the plans?

Umang Vohra Yes we plan to take it up, there are more products being transferred to India.

Nimish Mehta Okay. Thank you.

Sameer Baisiwala Is it possible to talk a bit more about our lead compound for incremental innovation that's dermatology asset?

GV Prasad Yes it is a product which has been in development for some time, it's Terbinafine for onychomycosis. It has the use of technology which enhances the penetration of the product to the nail bed. This is in Phase III now and Phase III will complete sometime end of FY12.

Sameer Baisiwala And it's in Phase-III in India, in US?

GV Prasad It's in US.

Sameer Baisiwala Oh I see. And so the US launch will be the first commercial launch of this product or could they be in India or emerging market launch prior to that?

GV Prasad It's probably going to be launched in US first.

Sameer Baisiwala Okay excellent. And just one question on the basic philosophy or the principals behind getting the market share in US, I remember you mentioned that we look for fair share, there are four players and 100 divided 4, if it's on day one launch. Now for Lotrel or for Lanso kind of products where we are third or fourth player, what is it that we will expect to gain in the market?

GV Prasad See I think there is a significant difference between day one launch and the late launch, so if we are late launch, I think getting the fair share will be tough. We as a responsible competitor do not like to disrupt pricing. So our share when we are late is likely to be less than fair, if you come to the fair as in equal share. But if we are on day one, we would aim to be fair or more than fair.

Sameer Baisiwala Okay. Thank you.

Alok Dalal Yes, Good evening sir, how many customers do we have in Omeprazole OTC now?

Umang Vohra We are not disclosing the exact number, but we picked up two additional customers in the last quarter and we have also significantly increased our shipments of that product to large retailers.

GV Prasad I think you should see significant ramp up of value and volume of this product from this quarter onwards.

Alok Dalal Okay. And sir you also mentioned about inventory buildup for launches in US this quarter, could you throw some light on which could be the key products here over the next six months or so?

Umang Vohra We are not giving product specific information, but I think if you look at our filings and you would be able to get better color on that.

GV Prasad And just to add a general point on inventories, we believe that a market where a service level is very important and the flexibility to serve the market in a situation where there could disruptions, a higher inventory at the point

of service would be very useful and in philosophy we have increased our inventory levels at the point of service.

Alok Dalal Sure. Sir would it be fair to assume that Allegra D-12 would be launched in November?

Umang Vohra We are not sure about that, but there is a de facto second exclusivity which the FDA has granted and I don't think anyone has launched it yet, so we are uncertain whether there will be launch in November.

Alok Dalal Okay thank you.

Sonal Gupta Thank you my question has been answered.

Umang Vohra Thank you.

Chirag Talati Yes hi, thanks for taking my question again. Just to follow up on Lansoprazole generic, we have heard some chatter that Watson might be coming up with an approval in the short term; can you provide some sense of it?

GV Prasad We don't have any visibility as such, but it's possible.

Chirag Talati And just one more on the biosimilar thing, the EMEA has come up with draft guidelines for monoclonal antibodies, so I mean do you see the clinical trial requirements in the guidelines being much different from what you had planned and had this been a factor in terms of your taking the product on your own in clinical trials?

GV Prasad Actually our meeting with the regulator was quite productive and the expectations we had were validated by the regulator.

Chirag Talati But just one last question, if I may, I mean Lamisil has already gone OTC in the US as well, Terbinafine and it's available as generic as well, so what's the rationale in developing a 505b2 version, I mean what is the kind of pricing you would expect at a premium to OTC and generics?

GV Prasad Lamisil is not indicated for onychomycosis. This is going to be effective as a topical, right. So this will be as effective as the tablet without the associated toxicity.

Chirag Talati It's available as a…

GV Prasad I understand it's available as generic.

Chirag Talati Like it's a cream for athlete's foot.

GV Prasad Right, what we are developing is not a cream first, it enhances penetration, so overall it's a very different product.

Chirag Talati Okay sure. Thanks for my questions.

Kedar Thank you all for joining Dr. Reddy's management on this call. In case of any further queries, IR Team would be available to answer that. Thank you.

Note : Necessary edits have been made in the document to refine factual data.