Dr. Reddy's Laboratories Limited

Third Quarter Fiscal 2010

January 20, 2010

Kedar Upadhye: Thank you Rochelle. Good morning and good evening to all the participants and welcome to Dr. Reddy's earnings conference call for the third quarter ended December 31, 2009. We hope you have all had a chance to review our press release, which was issued earlier this afternoon. The results are also posted on our website on the homepage under the Quick Links icon. To ensure full disclosure we are conducting a live webcast of this call and a replay of the call will also be available on our website soon after the conclusion. Additionally, the transcript of this call will be made available on our website at www.drredddys.com**.** Please note that all discussions and comparisons during the call will be based on IFRS consolidated financials and the IR Desk will be available to answer any query relating to the Indian GAAP financials immediately after the conclusion.

To discuss the results and the 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 rebroadcast or attributed in press or media outlets 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 release also pertains to this conference call and the webcast.

I would now like to turn the call over to Umang Vohra.

Umang Vohra, Chief Financial Officer

Thanks Kedar. I welcome all of you on the call today.

All the figures referred in the financial highlights section are translated at the convenience rate of 1 US dollar to Rs. 46.4.

The financial highlights are as follows:

- Revenues for the quarter are at $373 million representing a year-on-year decline of 6%. Excluding the revenues from sumatriptan in the previous year, the growth is at 17%. Revenues for the nine months at $1.2 billion represent a growth of 9%.
- Revenues from Global Generics business at $253 million declined by 14% for the quarter. Excluding the revenues from sumatriptan in the previous year, the growth is at 16%. Revenues for the nine months at $807 million represented a growth of 7%.
- Revenues from PSAI at $113 million for the quarter represented a growth of 17%. Revenues for the nine months at $334 million represented a growth of 11%.
- Gross Profit margin for the quarter at the company level is at 51% as against 56% in the previous year. This change in gross margins is on account of a favorable mix of high margin revenues from sumatriptan in the previous year. Gross margins for the nine months are at 51%.
  - Within the segments, margins for Global Generics and PSAI segments are at 60% and 31% respectively.
- EBIDTA is at $79 million for the quarter. For nine months this year, EBITDA at $255 million grew by 31%.
- SG&A expenses, excluding amortization for the quarter at $109 million remains flat as compared to both previous year and sequentially. This reflects a benefit of operating leverage and cost management initiatives carried out during the last several quarters.
- In March 2009, we had recorded impairment of approximately Euros 200 million relating to the goodwill and intangibles of our betapharm business in Germany, largely due to an expected 'gradual' shift in the German generics pharmaceutical market to a tender based model. During the quarter, a number of insurance companies in Germany have announced their final results indicating a higher pace of transition to the tender based model with an associated significant deterioration in prices from

the previous year's levels. As a result of this, the company tested the carrying value of betapharm's goodwill and intangibles for impairment and recorded a non-cash write-down of intangible assets and 'beta' brand amounting to Euros 48 million and a non-cash write-down of goodwill amounting to Euros 76 million. The overall net impact on Income Statement was Euros 109 million after a reversal of deferred tax liability relating to intangibles and 'beta' brand.

- Post these charges, the carrying value of betapharm intangibles & 'beta' brand in our books is approximately Euros 93 million, net of deferred tax liability, while the carrying value of goodwill is now zero.
- Loss for the quarter is at $112 million and Adjusted PAT for the quarter is at $50 million. Adjusted PAT for nine months this fiscal is at $158 million as against adjusted PAT of $110 million in the previous year, representing a growth of 43%.
- The adjusted effective tax rate for the nine months is at 19%.
- Adjusted diluted EPS is at 29 cents for the quarter and 93 cents for nine months this fiscal.

Moving on to the balance sheet,

- During this quarter, the operating working capital reduced by $10 million as we continue to keep tight controls on inventories and receivables.
- Capital expenditure for nine months this year is $56 million.
- Our foreign currency exposure of cash flow hedge options for the next 15 months is approximately $445 million hedged in the range of 47 to 52. Of this, $ 394 mn pertain to hedges taken for next financial year.
- Total net debt is at $150 million and this translates to a net debt to equity ratio of 0.17.

I now hand over to Satish.

Satish Reddy, Chief Operating Officer

Thanks Umang!!!

From this quarter's results, you will notice that we have continued to demonstrate our ability to grow our topline and bottomline, consistently. This is despite the absence of any large product opportunity. Within Global Generics, the growth in revenues from branded markets has helped us offset the decline in revenues from the regulated generic markets. Overall revenues from the Global Generics segment at $253 million grew by 16% year-on-year, excluding sumatriptan revenues in the previous year.

As most of you are aware that in November 2009, US FDA conducted their scheduled audits at two of our finished dosage facilities. While there was one minor observation at one of the finished dosage facilities, the existing open list of inspections in Form 483 have been declared to be removed for the generic injectables facility. The positive outcomes from these audits reflect and reinforce our capabilities in maintaining robust quality and compliance processes.

Let me now take you through our key markets starting with North America.

North America

- Revenues for this quarter at $64 million represented a decline of 53% from the previous year. Excluding the sales from sumatriptan in the previous year, the year-on-year growth is flat.
- In September this fiscal, one lot each of four of our products were voluntarily recalled by us. This caused a temporary slow-down of production resulting in diversification of supply sources by few of our customers. As a result, our base business revenues have been flat for this quarter. We have filed our investigation reports with the USFDA and have addressed all the issues alongwith necessary corrective and preventive measures to avoid such instances in the future. Post the successful US FDA inspection and clearing of back-orders, we are now confident of growing our customer franchise in the US.
- In December, we launched Omeprazole Magnesium OTC as a private label with one major customer. In the next few months, we will begin shipments to additional customers as part of our plan to ramp-up our market share gradually over time.

- This quarter, we received two ANDA approvals including the tentative approval of Fexofenadine 180 & Pseudoephedrine 240 mg. We have filed one ANDA this quarter, there are many more which are 'ready-to-file' and we do expect a ramp up of filings in the next two quarters. We now have 62 ANDAs pending approval at the USFDA of which 35 are Para IVs and 13 are FTFs.
- We expect to see strong opportunities from our near term launches such as fondaparinux and Fexofenadine Pseudoephedrine higher strength. We believe that we are well positioned to capture the value from these and similar such opportunities, while the launch timing is subject to the progress of regulatory review process and outcome of any pending litigation.

India

- Moving on to India.
- We had begun implementing a supply chain productivity initiative in the middle of last year. During the initial quarters, it resulted in de-stocking of inventories at our distributors and hence a lower level of primary sales. In the current quarter, our revenues of Rs. 2,632 million reflect a year-on-year growth of 34%. Of this growth, 29% is driven by volumes and 7% by new product launches. A part of the volume growth is also due to a low base effect.
- The growth momentum in India for the last nine months has enabled us move one rank up to 12th as per ORG IMS YTD November 2009. Our secondary sales growth of 20% during the same period remains higher than the industry growth of 16%. For the same period, we also continue to grow at a faster rate compared to Top 10 companies.
- Historically our new product launches were lower as compared to our peers and in the last few quarters we have begun to address this gap adequately. For nine months this year, we have launched 56 new products across various therapeutic areas and their contribution to total revenues this year is at 4%.
- We plan to launch one biosimilar in the last quarter of this year which is contingent upon approval from the regulatory authorities in India.

Russia

- In Russia, we have seen a reversal of the declining trend in market. Revenues at $49 million, registered a growth of 52% in dollar terms over previous year and 28% quarter-on-quarter. The growth is equally driven by both volumes and prices.

- The Pharmexpert prescription secondary sales trend for YTD November 2009 indicates a growth of 13% for Dr. Reddy's as against a growth of 2% for the Russian market.
- We continue to pursue opportunities to expand our portfolio through OTC diversification, in-licensing deals and through other niche products where the competition is lower.

Germany

- Revenues for Germany this quarter are at Euros 30 million, which represents a decline of 4% over previous year.
- The market situation remains challenging which led to our evaluation of impairment trigger in this quarter. A number of healthcare insurance providers have awarded their final results during the quarter while few more results are awaited. These new tenders continue to cause pressure on existing level of sales due to a steep decrease in the product prices.
- Our goal of mitigating erosion of profitability through cost rationalization continues. As you are aware in June this year we had restructured our field force from levels of 120 people to about 50. Now, we are in discussions with the Works Council in Germany for another round of significant restructuring of workforce in betapharm. This restructuring is likely to get completed in Q4 of this fiscal.

PSAI

- Our revenues for the PSAI business at $113 million grew by 17% over the previous year.
- The growth of the API business is contingent to our generic customers launching their products. For the CPS business, which was affected due to the recessionary pressures, we are now beginning to receive increased orders from our customers.
- The overall order books for PSAI as of December 2009 have improved from the levels of September 2009.
- This quarter we have filed 11 DMFs including 3 in US and 8 in Europe and cumulatively we have filed 388 DMFs globally.

With this, now I hand it over to Prasad.

GV Prasad, Chief Executive Officer

Thank you Satish.

I would like to begin my discussion by briefing you on some key senior management changes in the last few months. To achieve our stated goal of $3 billion of revenues and RoCE of 25% by Fiscal 2013, we realized the need to strengthen our organization. As part of this process, we have made a few changes in our Senior Management team. Saumen Chakraborty, who earlier headed Corporate & Global Generics Operations will function henceforth as President, Corporate and will focus on integration of People, Processes and Information across the organization to facilitate a culture of Total Quality, Execution Excellence and High Performance. Abhijit Mukherjee, who earlier headed the PSAI business, will now lead our Global Generics business end-to-end and we believe the dedication of a senior leader to integrating the entire business will make a big difference to the Global Generics business. In addition we have made a few other changes in our North America and Proprietary Products organization.

Now, moving on to other business highlights:

You would observe from this quarter's performance, PSAI as well as the key markets of India and Russia have contributed to the overall growth. Germany continues to remain a challenging market; however we are taking suitable measures to mitigate the impact to the cash flows. Based on our results for the first nine months, we now feel that our full year revenues are expected to be lower due to the decline in Germany, delay of few of our key launches and temporary loss of revenues in US due to recall related incidents. In view of this we now expect a lower single digit growth in revenues for the full year as compared to our earlier 10% revenue growth guidance given by us. However, inspite of such lower revenue growth, we are confident of meeting our RoCE guidance for the full year adjusted for non-recurring charges.

The strategic alliance with GSK has been progressing well. The first set of formulation products are expected to be launched in Mexico in early Q1 of the next fiscal year. We continue to work with GSK team on the portfolio and product selection for other segments of our business.

As announced recently, we are pleased to see encouraging results on the headline data from the first phase III study for Balaglitazone. The trial met its primary endpoint of glycaemic controls (HbA1C and FPG). Next steps for additional phase III studies will be finalized after further discussions with regulators. We will also explore possible partnerships to monetize this asset.

We continue to reiterate our $3 billion revenue targets by FY13. The growth trajectory for base business in our key markets is encouraging. In addition, in the next two to three years, the patent expiries in the US are worth more than $75 billion as compared to less than $50 billion in the last three years. We are well positioned in terms of our portfolio, pipeline and infrastructure to maximize the value from this incremental growth opportunity.

Now, I thank you all for your kind attention and open the forum for the Q&A session.

William Kirby: Firstly on the Russian revenues, is this increase, how much of that is due to restocking or other effects or is it a clean growth from underlying demand and then secondly inflation in general and advertising expenses seems to have come down quite a lot. How should we think about that as a percentage of revenues in future years, please?

Umang Vohra: Well, in Russia, I think half of the growth is on account of pricing, which was related to the devaluation of the Ruble and the other is due to the season effect. We probably will see - this is may be a very high quarter for Russia. On SG&A we have optimized the business model in Germany and certain other R&D units as a result of which SG&A level has stabilized at the current level. So we are not guiding to any future period percentage, but because of the last two to three quarters this number of what you are seeing in SG&A of about Rs. 5,000 million is maintained.

William Kirby: Okay great. Thanks very much.

Balaji Prasad: Firstly on the US launches delay, any specific reason as to why you can see for this and secondly, when do you expect each of these to come in the market? And my second question is on betapharm, do you see any further write-offs in the 'beta' brand coming in the near future?

G.V. Prasad: With respect to the launches delay this is a combination of both internal and external factors. I think the delay should result in our launching in Q1 next fiscal as opposed to this quarter.

Balaji Prasad: Which of these products will be coming to the market in the Q1?

G.V. Prasad: Some of our products. I do not want to name them right now, but a couple of products, which should have been launched this quarter, got pushed, to the next quarter. With respect to betapharm now the carrying value is about € 93 and at this level we are comfortable and there should not be any further impairment if the level of performance remains at what we expect it to be, but having said that this is an evolving market and I do not want to make any categorical statement here.

Balaji Prasad: Fair enough. If I could just ask further on the GSK alliance you are planning to enter the Mexican market with this alliance. What is the rationale behind choosing this market and how are you going to choose the product to launch in this market? And what is the strategy encapsulating in total as in one to two years what could this mean in terms of the revenues for Dr. Reddy's?

G.V. Prasad: So the alliance is aimed at us supplying products for GSK for all its emerging markets. It also preserves our right to enter these markets whenever we want. But as a company we have decided that we focus on five major markets and try to drive growth in these five markets, before we really expand our geographic footprint. We of course have other tier II markets of about another ten markets, but the primary focus are on these five markets. This enables us to concentrate on our resources, execute better and also prioritize better and so the logic of working with GSK is that we would supply the product and they would do all the front end and marketing. Because of their global presence, for them the incremental cost for setting up franchises is very small. In addition, they have the advantage of having innovative products, branded products based on this they can piggyback and sell branded generics. So this is basically the strategic rationale for the alliance. We started registering products in various markets; the big markets are of course Turkey, Brazil and Mexico. There are a few other markets but these three will primarily drive the initial activity. We are just launching products in Mexico later this year. It is not going to be significant for the first year, even the end of second year I do not think it is very significant, and from third year onwards we will see meaningful numbers.

Balaji Prasad: Okay. Thank you very much. Good set of numbers. Thank you.

Krishnendu: I just had two questions, regarding the R&D expenditure; correct me if I am wrong, it is down from a Q-O-Q basis. I am asking this question simply because you had change of agreement with Rheoscience on Balaglitazone's expenditure. So that is one question, can you throw some light on that? And what will be the breakup of CPS and API in the PSAI, if you could just help me out in figuring, please?

G.V. Prasad: I think the R&D expense is not related to Balaglitazone change. It is more related to the phasing of our bio-studies. You know the cost of the bio-study is a major

component of our R&D budgets and they come bunched up, so part of that will be incurred in Q3, Q4 and then the Q1 later. So that is more nearly a phasing of the expenditure. It does not signal anything beyond that.

Krishnendu: Any guidance if you can give us? How much expenditure would be incurred in phase III which are going to be conducted?

G.V. Prasad: We are not going to fund that, so we have to wait and see and I think we will only know once the regulator comes back and defines what kind of trial is necessary for approval of this product and we are not even sure that we will fund it ourselves or our partner; we may even license it to a third party. In terms of R&D spend as a percentage I think it will hover around 5%.

Krishnendu: Okay. And Sir, about the breakup of the CPS and the API in the PSAI business?

G.V. Prasad: We are not disclosing that level of detail.

Krishnanendu: Okay. Thank you. I will get back in the queue.

Surjit Pal My first question is that you faced a de-growth of around 10% in US market even if I remove those Imitrex sales in this quarter?

G.V. Prasad: It is slightly below last year's sale. Very marginally below.

Surjit Pal: See, last time you said it was around $72 million of last year's sale or quarter's sale of Imitrex. Out of 143, it is 71 million the rest of the business vis-à-vis 64, which is also inclusive of your business in Omeprazole OTC. So atleast around 10% kind of de-growth you were seeing in this quarter right?

G.V. Prasad: Around 3%.

Umang Vohra: 3% in Rupee terms and 1% in dollar terms.

Surjit Pal: Another thing is how much loss have you accounted for recall in US market?

G.V. Prasad: We are not sharing that level of detail. The loss of the recall is itself not significant; I think the bigger impact is the slowdown in the sales as a result of the various actions that we have taken. Actual recall is not very significant.

Surjit Pal: Any particular reason for your particular growth in domestic PSAI market?

G.V. Prasad: Higher degree of focus and some initiatives to improve the sales force targeting and the new product launches.

Surjit Pal: Any new customer addition?

G.V. Prasad: No. Not really, I think you must also recognize that the last year's performance was a little at a lower base.

Surjit Pal: Thank you, I will get back to you.

Neelkanth Mishra: Yes, this is the question on Omeprazole OTC sales, you did mention that - what was the reason for the delay in launch and what is the reason for a very tentative beginning?

G.V. Prasad: Firstly I think the OTC switches do not behave in the same way as the generic product, because the OTC products have packaging and a few other art works and all of these issues and switching sources is not as quick as you would switch the generic products. Having said that I think, we have some internal issues in terms of equipment delays and scale up and all of those, so that delayed the launch itself, but the off take is also I think because this delay has somewhat you know the customers are little more tentative but now we see that picking up and we should start picking up shares reasonably quickly now.

Neelkanth Mishra: So this share will come out from new customers or share within the existing customers only?

G.V. Prasad: It is both.

Neelkanth Mishra: Right, what I am trying to understand is that have you already entered the larger customers or are there still to be signed up?

G.V. Prasad: I think you know it will be a mix of both, existing as well as larger customers.

Neelkanth Mishra: And trying my luck here, any share targets that you could disclose?

G.V. Prasad: No.

Neelkanth Mishra: Okay, any update on Fondaparinux?

G.V. Prasad: No update as such. I think the regulators' review is going on. We have not had any formal response on our application yet, but we are all geared up to quickly turnaround any requests that may come and we believe that next fiscal year we will launch this product.

Neelkanth Mishra: Right, but there was this under the 'GIVE' initiative the FDA was required to process this in six months or something like that?

G.V. Prasad: Yes, accelerated way. It is still in that process, but it is a reasonably complex product.

Neelkanth Mishra: Okay, I will join later in queue. Thanks.

Ranjit Kapadia: Sir my question relates to this Omeprazole Magnesium, you said that we have already started with one of our customers, so going further what are the plans and how many more customers you are likely to add? Second question regarding the domestic market, you have done a very good growth of 34% for formulation and 30% for API segment, so going further what are your plans to address this in the market?

G.V. Prasad: The Omeprazole issue I think we have already answered that. We are going to drive through both new customers as well as existing ones. On the Indian market we have few initiatives, would you like to talk about this, Satish, the rural initiatives, etc.?

Satish Reddy: Couple of things; see one is supply chain initiative that we have done earlier so that actually created a certain base on which you are seeing this kind of a growth, so it is a low base on what you see. Second thing is the rural markets initiative that we had commenced on the pilot basis last year, but now this year we have the full

benefit because we have scaled up the field force and that has begun to show in our results. The third one is the new products or it has been the most prolific year of new product launches. Already about 56 has been launched. So all the factors put together plus very close targeting of customers, expanding the base as well as very clear targeting through marketing divisions, all put together has given us this kind of a growth. And on the API side I do not think we have disclosed any such numbers. I don't know where you got the figure of 30%.

Ranjit Kapadia: Sir, can you share how many MRs are there in field force?

Satish Reddy: 1,200 on rolls and 800 on the contract field force. Totally 2,000.

Ranjit Kapadia: 1200 on the rolls and 800 contract.

Satish Reddy: Yes.

Ranjit Kapadia: Thank you, so much and all the best, Sir.

Akshat Vyas: My question is regarding this operating margin, so we have seen significant improvement ex-Imitrex. Is this margin sustainable going forward?

Umang Vohra: Yes. We have seen two or three quarters in which the base business has improved quite dramatically and we believe that these margins are comparatively sustainable going forward.

Akshat Vyas: Okay and the second thing like you know primarily talking about growth in the Russian market. When you say that 50% growth trend is because of currency devaluation, which means remaining growth was basically from the volume and the value?

Umang Vohra: I will just rephrase what I said. I said that the linked to the devaluation we took pricing increases which accounts for more than 50% of the growth you have seen.

Akshat Vyas: And what was the volume growth?

Umang Vohra: The volume growth is about 25%.

Akshat Vyas: 25% thank you, very much and that is all from my side.

Nitin Agarwal: Two questions, one is with the Sanofi now planning to take Fexofenadine OTC how does it playing out for us, given that Fexofenadine still is a pretty relevant component of product for us in the US?

G.V. Prasad: I think the OTC will only expand the market, I do not think it will cannibalize the prescription market.

Nitin Agarwal: So in terms of our ability to hold on to any… that would not get impacted?

G.V. Prasad: I do not think that will get impacted. It may even throw out some opportunities from the OTC perspective.

Nitin Agarwal: And you mentioned earlier on in the opening comments about likely Fexofenadine combination launches, when do you see those happening?

G.V. Prasad: First quarter or second quarter.

Nitin Agarwal: This could be both the combinations or?

G.V. Prasad: One of them positively.

Nitin Agarwal: Okay lastly you mentioned about the injectable facility, the 483 has been revoked, have you started getting approvals for them, for this facility or when do you expect approvals?

G.V. Prasad: We are waiting for approvals. I think the FDA inspection is over, now the inspection report has to go through the process and then we should see some approvals.

Nitin Agarwal: This would be a cyto-toxic facility?

G.V. Prasad: Yes.

Nitin Agarwal: Thanks.

Rahul Sharma: Sir, just wanted to know, do you think the run-rate what we are clocking in the domestic formulation space is sustainable going forward?

Satish Reddy: Yes, I believe it is sustainable because if you see the clear month-on-month trend consistently we are growing above the market growth rates, which also I believe the industry will continue to grow on the back of new product launches and you know expansion of the market itself, so we actually believe it is sustainable.

Rahul Sharma: And around 250-260 Crores per quarter basis?

Satish Reddy: Yes.

Rahul Sharma: In the PSAI segment, Europe has been doing particularly well in the last two to three quarters, what can you attribute this to and how do you foresee it going ahead?

Umang Vohra: So there are a few products for which we have a very high market share due to the process related issues in the sense that we have a process, which is non-infringing. As a result of that product and one or two other such products the Europe share is higher.

Rahul Sharma: But how long do you think you will be able to sustain this type of traction?

Umang Vohra: Well, we have several other products in the pipeline as well, so we believe that the traction could be sustained.

Rahul Sharma: And just wanted clarity on the Forex hedges, what rates we have basically contracted the hedges?

Umang Vohra: We are in the range of, as an average you could take 47 to 48, but our range is from 46 to 52.

Rahul Sharma: Okay and this would be on 394 million of forward covers?

Umang Vohra: This would be 394 million of options, primarily options for the next year alone.

Rahul Sharma: And what about Forex loans, how much would be on books as of now?

Umang Vohra: We have a Euro loan of about €161 million.

Rahul Sharma: Nothing more than that. Okay. Thanks.

Sameer Baisiwala: My question is about the German business that once AOK and non-AOK tender businesses are fully operational, what could be the level of business that we can expect in Germany versus say 200 Crores that we did in the previous quarter?

G.V. Prasad: I do not think they are giving precise numbers, but we expect this to shrink a little going forward.

Sameer Baisiwala: I mean when you say shrink a little it is contrast from the sharp write-off that we have been taking, I mean, if…

G.V. Prasad: When I say little it is I am not able to give you a range but we expect it to shrink.

Sameer Baisiwala: Okay and I mean if I were to ask more directly, would it be a significant shrinkage like I mean you may not give me a number, but…?

G.V. Prasad: I think it is significant, because we expect it to be significant and that is what has caused the write off, but it is not going to be material to the company as a whole that is why I said little, but for Germany it may be significant.

Sameer Baisiwala: Okay and the other question is about the US business specifically fexo over there. There seems to be a very sharp collapse in the market share, and you mentioned the context of US that there is a temporary slowdown, are the two correlated or fexo is going to remain….?

G.V. Prasad: I think it is more a loss of a customer than the market shrinking and that may be the shrink in our market share, but I do not think there is anything to do with the OTC or anything.

Sameer Baisiwala: But do you think this much lower market share is going to go up or this is where it is going to stabilize?

G.V. Prasad: We hope to recover as we improve everything that we are doing here, we are going to recover. This is a part of the collateral damage of the recall.

Sameer Baisiwala: This quarter that has gone by was rather free of any one offs and stuff like that, and we reported a net profit of roughly Rs. 2.3 billion. Is this something that we should expect as earnings power of the base business and normalized earnings?

G.V. Prasad: I certainly think so. While we did not have any one offs, we did have some hits especially Germany was lower than projected internally and US also suffered somewhat but it is fair to assume this number as a base number.

Sameer Baisiwala: Excellent. Thank you, so much.

Bhavin Shah: Sir, just one small question. What is the workforce of betapharm currently and what is the plan of cutting down, I mean, as you mentioned in your presentation?

Umang Vohra: betapharm currently has about 250 people and we are in discussions with the Works Council to take this number closer between 80 and 100.

Bhavin Shah: Okay and this sharp cut down would happen in another one and a half years timeframe roughly?

Umang Vohra: No, shorter than that, maybe three to six months.

Bhavin Shah: Okay. Thanks a lot. That was it.

Vikas Sonawale: My question is on balance sheet, we are seeing consistent improvement in balance sheet in terms of net debt over the period of last five quarters time to be precise, net debt has gone down by about 60%, so going forward you know, how do you intend to look at the net debt level or you know you could probably see stable number from here on?

Kedar Upadhye: The decrease in net debt is largely due to repayment of our Euro loan that we had taken for acquisition of betapharm. We had an agreed prepayment schedule and in a period of next one to two years this loan will get completely repaid.

Vikas Sonawale: Okay so let us say another three to four quarters you can probably be a net debt zero company?

G.V. Prasad: This has to be thought in terms of the aggressive capital plan that we have, obviously we are building two large facilities for API and finished dosage. We are also investing in a bio-similar facility. Subject to this I think the cash flow still remains quite strong.

Vikas Sonawale: Okay great. That is great. I mean, one small question, in UK market, I mean it is a small market but it was doing pretty well for the last two quarters. How has the growth been this quarter?

Kedar Upadhye: We will come back to you.

Vikas Sonawale: One final question, what is the general timeline to take the biological drug from, let us say Indian market to ROW market?

G.V. Prasad: Some of it is happening already in the process of registration in few markets, so we should see some revenue coming in, a small amount of revenue coming in this year, may be increase in next year and more significantly the following year.

Vikas Sonawale: Okay great. Thanks.

Sonal Gupta: Question one, could you tell us the gross margins for the two divisions for this quarter?

Kedar Upadhye: Gross margins for Global Generics is 60% and PSAI is 31%.

Sonal Gupta: Okay and Sir just to also wanted to understand post these write offs your RoCE target will it remain at 25% or should we expect to go up as and when you revise that?

Umang Vohra: We have guided to 25, basis the March value and therefore it could be expected to be slightly higher than 25, but it will not make too much of a difference because what we have written off is probably less than 10% of the capital employed.

Sonal Gupta: Right and on Germany just to understand, the sales over the last few quarters sustained at a sort of reasonable levels, given that you are saying that the market probably will move completely towards tender. What percentage of the sales do

you think will come from this kind of business or is there still some business which will be non-tender based or do you think it will be totally tender base?

Satish Reddy: A significant portion of that will necessarily move towards the tender based business; however, a small portion may be of the OTC products, so some portion of the business which is not tender that will continue to exist.

Sonal Gupta: And do you intend to have a sales force post the restructure?

G.V. Prasad: No. The sales force is gone.

Sonal Gupta: Okay thank you so much. I will get back in the queue.

Rajesh Vora: Mr. Prasad first, you mentioned about the full year guidance of 10% will not be met and the topline growth will be low single digit, which means that in the first nine months you have grown at 9% to $1.2 billion, so it has to be - are you saying that lower than that number is that what you are indicating, decline in the growth rate?

G.V. Prasad: The fourth quarter of last year was significantly higher because of the full effect of Sumatriptan. So relative to that the growth will come down. Overall level it will get impacted.

Rajesh Vora: Okay so for the full year it will be single digit wherever it comes up?

G.V. Prasad: Yes.

Rajesh Vora: And you have mentioned about $3 billion number, you will stick to that goal of doubling roughly in the next three years, what would be the key drivers of growth. Of course you have a pretty good set of pipeline for FTFs and interesting ANDA opportunities, beyond that what are the growth drivers going to be?

G.V. Prasad: It is difficult to give you in such specific levels, but the large growth will come from our Global Generics markets, and US will partly be the largest driver of growth and after that the ROW markets. We are also seeing significant growth in our pharmaceutical services and active ingredients business.

Rajesh Vora: Okay and could you tell us on Allegra D-12 would it be two/three player scenario or more player depending on what visibility you have today.

G.V. Prasad: I do not think we can predict that very well.

Rajesh Vora: Sure and last question on given what you have mentioned so far on the call on Germany business what is the extent of price cut that we have seen so far in the recent time and you are seeing significant drop further in the revenues potentially. How are we building that number? Is it in excess of 20%, more or less?

G.V. Prasad: We cannot use a block percentage like that. There are many variables involved, the tender, the competition, the molecule. Where you end is a function of many things, I do not want to hazard a guess and give you something.

Rajesh Vora: Okay, thanks. All the best.

Balaji Prasad: I just had a couple of queries on Balaglitazone. Firstly wanted to understand the level of glycaemic control, which you had targeted and how does this compare versus other PPAR agonists? Second question was, wanted to understand also which stage of patient recruitment is the study right now and lastly just wanted to see if you had any side-effect profile which has been, which has come out at this point in time?

G.V. Prasad: So we did a one Phase III study with 400 patients. Glycaemic control is comparable to Actos. The safety profile, again, it is only based on this 400 patients. It shows some level of improvement, both in the weight gain as well as the bone density, but this has to be further studied in terms of clinical significance and statistical significance. So we have to do additional trials to demonstrate the safety. The positioning would be that similar to the existing glitazones in terms of efficacy, that we can improve safety profile and this needs to be demonstrated in Phase III.

Balaji Prasad: Okay. Would you have any duration in how long this could take?

G.V. Prasad: We are going to meet the regulators this month, and we will get input into how the trial design will be and after that, we will formulate our plans, right now, we do not have any plans.

Balaji Prasad: Okay, great, and good luck on this. Thank you.

Bino Pathiparampil: Just to dig a little deeper into the issue in the US, we see that there is a significant decline over the previous quarter's level of sale in the US. So, when you said that you are working on some strategy to get back that business, is it over a few months period, or do you think it's like two-week or three-week thing, which you can fix up of that then add back the customer?

G.V. Prasad: So, we do not have any issue as such. It is just that voluntary recall resulted in some slowdown on our side in terms of supplying the market, because we wanted to first be very sure of everything that we are doing in our operation. So, we had to suspend shipments, we had to institute quality control checks and corrective actions. We did all of that and then subsequently we had an FDA inspection and it went off quite well. But as a result, supply to the market got impacted and naturally customers hedged their position. Now, to recoup all of that, it will take more than a quarter, it will take a couple of quarters perhaps, and we are still in the process. So, it's not going to be a quick fix, but it will take a couple of quarters.

Bino Pathiparampil: Okay. Right. And second, in Russia, over the last couple of quarters, you had been saying that some of the price increases that you took originally will have to be reversed as the Ruble appreciated. So, we do not see any of that happening, do you think you won't need to do that or are we going to see that in the coming quarters?

Satish Reddy: We do not see the need to reverse prices, now.

G.V. Prasad: Okay. Right. And quickly a housekeeping question, the amortization of this quarter about 37 Crores or so, is that going to be the run rate for the quarters ahead?

Kedar Upadhye: Yes, you can assume the same run rate for the subsequent quarters.

Bino Pathiparampil: Okay. And the Capex for the first nine months of Rs. 2.6 billion seems a little low based on your prior guidances, is that true?

G.V. Prasad: Yes, I think it will increase as we go forward.

Bino Pathiparampil: Okay. So, for the full year, what would be your guidance?

G.V. Prasad: I do not think we are giving guidance on Capex.

Bino Pathiparampil: Okay. Great, okay, thanks.

Krishnendu: Sir just wanted one figure. So, how much was the insurance AOK be part of the business as a percentage of the total Betapharm right now?

G.V. Prasad: About half or so.

Krishnendu: 50% right, hello?

Satish Reddy: Roughly 50%, yes.

Krishnendu: Thank you.

Sonal Gupta: Just to understand on the GSK alliance, is this or are all the sales going to be incremental or are there some markets where you are sort of looking at getting out and probably GSK and transferring basically the product registration that gets transferred to GSK and GSK gets the - so is there some cannibalization of existing revenues?

GV Prasad: There is no major cannibalization, but there is a shift of existing dossiers and some very minor sales from one of the countries, we will probably shift to them, but it will be incremental, largely it will be incremental.

Sonal Gupta: Okay great thank you.

Nishant Patel: Just a quick one, what has been the growth in the European market, ex-Germany?

Umang Vohra: Can we get back to you, Nishant, with that data because there are two or three markets, and we will try to get back to you, the IR Desk will get back to you with it.

Nishant Patel: Sure, sure, thanks.

GV Prasad: Thank you.

Satish Reddy: Thank you.

Kedar Upadhye: Thank you all for joining Dr. Reddy's management for the Q3 FY10 earnings call. In case of any other queries, IR Desk is available for clarification. Thank you and good evening.