

Dr. Reddy's Laboratories Limited

Second Quarter Fiscal 2010

October 23, 2009

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 second quarter ended September 30, 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.drreddys.com. Please note that all discussions and comparisons during the call will be based on IFRS numbers and the IR Desk will be available to answer any query relating to the Indian GAAP 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 everyone on the call today.

All the figures referred in the financial highlights are translated at the convenience rate of 1 US dollar to Rs. 48.09.

The financial highlights are as follows :

- Revenues for the quarter are at \$382 million representing a growth of 14%. Revenues for the first half at \$760 million represent a growth of 17%.
- Revenues from Global Generics business at \$264 million grew by 14% for the quarter. Revenues for the first half at \$535 million represented a growth of 20%.
- Revenues from PSAI at \$112 million for the quarter represented a growth of 11%. Revenues for the first half at \$213 million represented a growth of 9%.
- Gross Profit margin for the quarter at the company level is at 47% as against 49% in the previous year. The current quarter margins have been impacted by one-time inventory provisions of €6 million in betapharm on account of non-moving stocks and \$4 million in the US for inventory valuation adjustments of sumatriptan stocks lying with us. Excluding these non-recurring items, the adjusted margins are at 51%.
 - Within the segments, margins for Global Generics and PSAI segments are at 53% and 36% respectively.
- EBITDA at \$79 million represented a growth of 51% for the quarter. EBITDA for the first half at \$170 million grew by 70%.
- SG&A expenses, including amortization for the quarter are at \$111 million, remained flat as we continue to monitor our operating expenses. This expense includes the benefit of decrease in amortization charge due to the impairment of betapharm intangibles that we recorded in March 2009.
- Forex gain of \$5 million as against forex loss of \$6 million in the previous year. The gain is largely on account of movements in local currencies vs. the rupee at our subsidiaries.
- PAT at \$45 million for the quarter as against \$22 million in the previous year, representing a growth of 106%. PAT for the first half at \$96 million grew by 113%.
- The effective tax rate for the quarter is at 21%. This is on account of larger share of profits recorded at higher taxable entities.
- Diluted EPS is at 27 cents for the quarter.

Moving on to the balance sheet,

- During this quarter, the operating working capital reduced by \$ 28 mn due to improved efficiency in managing inventory, receivables and the inventory write-off at betapharm.
- Capital expenditure for the first half Fiscal 2010 is \$30 million.
- Our foreign currency exposure of cash flow hedge options for the next 18 months is approximately \$217 million hedged in the range of 47 to 52.
- Total net debt is at \$177 million and this translates to a net debt to equity ratio of 0.19.

I now hand over to Satish.

Satish Reddy, Chief Operating Officer

Thank you Umang.

For this quarter, revenues from our Global Generics segment grew by 14% year-on-year and 20% growth for the first half. In the US, despite expiry of sumatriptan exclusivity in the second week of August, base business showed a good growth. The India business is now clearly showing the uptrend consequent to the supply chain initiative started some quarters back and backed by aggressive new product launches. Russian market continues to degrow but we are in a better position than the previous quarter, sales have actually registered a growth against the market trend. Germany performance continues to be challenging for us.

Let me now take you through few of our large markets starting with North America.

North America

- Revenues at \$89 million represented a dollar growth of 23% driven by new product launches in the last one year and volume growth in many of our leading products.
- Sumatriptan is now genericised with multiple players in market. A large part of our quarter's revenues up to second week of August was offset by price adjustments on the stocks held by our customers.
- We have recently entered into a settlement agreement with Novartis for generic versions of Novartis' Lotrel® tablets which involves a stipulation of dismissal of the lawsuits in the US relating to our ANDA. Under the terms of the agreement, we will launch the generic version sometime before the expiry of the Orange Book patents for the product.
- We concluded another deal in the US for the purchase of an ANDA on fenofibrate capsules - Antara® with Lupin. As part of this deal, we have the rights to launch the product at some time prior to the expiration of the listed patents.
- This quarter, we received 5 ANDA approvals including the final approval of Nateglinide that was subsequently launched in September. We have also received a tentative approval of Fexofenadine Hydrochloride and Pseudoephedrine Hydrochloride (60mg & 120mg).
- These events demonstrate our continual ability to create a growing annuity of limited competition opportunities.

- In addition we also expect to launch Omeprazole Magnesium OTC in the coming weeks. The delay in launch was because it took more time than originally anticipated to manufacture commercial quantities of the product.
- Till date we have filed 2 ANDAs this year and we expect to increase the filings rate for the balance of the year. We now have 61 ANDAs pending approval at the USFDA of which 26 are Para IVs and 15 are FTFs. The 15 FTFs address a market of \$9 billion.

India

- India has started delivering the intended results in line with our previous actions and this quarter we recorded our highest ever quarterly revenues of Rs. 2,520 million (\$52 million). The year-on-year growth of 13% was largely led by some of our top brands like Omez, Razo and Omez-DSR. Sequentially, the value growth is at 5% largely on account of volume growth across products.
- We have experienced a good growth momentum in India for the last six months. The secondary sales trend as per ORG IMS for the five months April to August shows a growth of 17% for Dr. Reddy's as against a market growth of 14% and the Top 10 Companies growth of 16%.
- Earlier we had identified the need to improve our penetration in the rural market. In the beginning of this fiscal we began targeting few states with a contractual field force and now we are beginning to see a good traction in this segment of our business.
- We have also begun to address our portfolio gaps with an increased intensity in our new product launches this fiscal. We have launched 32 new products till date including differentiated products like Finrid® which is a fentanyl patch for acute pain management.
- In the dermatology segment, 6 products have been launched till date. In order to capitalize on our relationship with doctors in the dermatology segment we have recently created a dedicated team to cater to the high potential cosmetic market. Our first product 'Strea Professional' under this new division 'Asthetix' just got launched about two weeks back.
- The combined drivers of increased new products launches, improvement in our supply chain efficiency and also the measures that we have taken to address our weakness in sales in certain regions would enable us to achieve a robust growth in this business for the balance of the year.

Russia

- Revenues at \$38 million, registered an increase of 25% in dollar terms over previous year and 22% quarter-on-quarter. The year-on-year growth was primarily led by price increases and a lower base effect while the sequential growth was primarily led by volume increase.
- The secondary prescription sales trend as per Pharmexpert for the five months of April to August compared to same period last year indicates a de-growth of 6% in dollar value for the Russian market. For the same period, Dr. Reddy's secondary sales grew by 7% in dollar value terms. In terms of the local currency growth the industry & Dr. Reddy's grew by 27% and 45% respectively. The disparity in rouble & dollar growths is due to the sharp devaluation in rouble witnessed in the previous year.
- In terms of portfolio, we are aggressively pursuing opportunities through various in-licensing deals. We are also investing in the high potential OTC segment, which is approximately 10% of our business today.
- Our customer credit limits continue to be very tightly controlled.
- The Russian market has begun to show signs of improvement from the earlier quarter. However as compared to our robust growth in the earlier years, we may observe a slightly subdued growth for the balance of the year.

Germany

- Revenues for Germany this quarter are at Euros 32 million, which represents a decline of 25% over previous year. The sequential increase of 31% was on account of one time seasonal vaccine sales in this quarter.
- We feel that this market has still not stabilized and with increasing number of insurance companies going the tender route we continue to face a high pressure on the pricing and margins. Further with a new government in place, healthcare reforms with a different view cannot be ruled out.
- As you are aware, we have cut down our field force from levels of 250 people at the time of acquisition to about 50 people today. We believe at this point of time the current field force is at an optimum level and are largely catering to the pharmacies. To remain competitive in this market we will continue to evaluate and take appropriate measures to reduce other administrative costs in Germany.
- We may likely see a significant decline in this business for the year and the revenues may stabilize at much lower levels than the previous years. Our German business today constitutes a much lesser portion of the overall business than earlier times with less than 10% revenue contribution now and further lower share in terms of profitability.

PSAI

- Our revenues for the PSAI business at \$111 million grew by 11% over the previous year and 10% quarter-on-quarter. The trend in our order book also continued to improve from the earlier quarters.
- This quarter we have filed 5 DMFs and 9 till date this year. Cumulatively we have filed 361 DMFs globally of which greater than 80% relate to the regulated markets.
- We believe that the rebalancing in the global macro-economic scenario would impact us positively and we expect a steady growth for this business for the balance of the year.

I now hand it over to Prasad.

GV Prasad, Chief Executive Officer

Thank you Satish.

Let me begin with an outlook of the overall business. As you would observe from this quarter's numbers, our PSAI business and the key markets of India and US continue their growth trajectory. As we have been highlighting, German market continues to be challenging. The shortfall to revenue achievement in Germany is due to the de-stocking in Q1 after the AOK tender kicked in, coupled with the continuing price fall. While the revenues will be below plan in Germany, we are making efforts to mitigate the risks to cash flows. However, in the next quarter, we may expect a number of tenders to announce their final awards which may trigger the testing of betapharm's goodwill and impairment on the Balance Sheet.

In the previous month in the US, one lot each of four products were voluntarily recalled by us as a precautionary measure because the specific affected lots were observed to have contained a small number of oversized tablets. This voluntary recall was conducted with the full knowledge of the US FDA. We have responded to the FDA on our investigations and we have initiated various corrective and preventive measures at our manufacturing sites in order to avoid such instances and complaints in the future.

Our North America Generics pipeline continues to impress with the growing annuity of limited competition opportunities. In addition to current opportunities of Omeprazole Magnesium OTC & Fondaparinux, we are currently the first and only filer on Fexofenadine Hydrochloride and Pseudoephedrine Hydrochloride 180 & 240 mg.

Let me now give you an update on our strategic alliance with GSK. The progress in terms of product selection by the core team is well on track. Few large markets were initially identified and the process of transferring the dossiers to GSK and filing with the respective regulatory authorities in these countries has already begun. The processes of products selection have also begun for the countries where we had exited earlier this year. We expect that the first shipment of products under this deal to begin sometime in early FY11.

In Biologics, we are close to launching one product this year and the second has got deferred to the next year. Our product engine continues to deliver and we shall be able to launch one product every year.

The base business growth in first half of this fiscal has been fueled by volume growth and new product launches in the key markets of our Global Generics business. This volume expansion has created pressure on our capacities and to address this, we continue to invest in manufacturing infrastructure to build adequate buffer capacities. In parallel the process for facility planning of our SEZs has begun. In addition, the efficiencies in product development engine have started to deliver in terms of an 'enhanced' portfolio mix and improved resource utilization. With this, we continue to build a robust pipeline to achieve our medium term FY13 targets of USD 3 billion of revenues and 25% return on capital employed.

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

- Balaji Prasad** My question is regards to two of the products in the US market. Firstly, on Sumatriptan, can you give us the revenue numbers for this quarter and how much of this came through in the quarter? And secondly what are the specific issues that have delayed the launch of Omez OTC in the US market?
- Umang Vohra** Balaji, on Sumatriptan, the revenues for this quarter are less than \$10 million and the profit contribution of that is even further less because of the shelf stock adjustment that we have taken in the quarter. So there is negligible profit impact of Sumatriptan, revenues are less than \$10 million.
- GV Prasad** Coming to the Omeprazole OTC delayed launch it is a combination of facility readiness as well as the right equipment being in place and having now achieved that in the next few weeks we should launch the product.
- Balaji Prasad** Okay and typically how challenging is this OTC market to penetrate and launch in the U.S.?
- GV Prasad** This is a market we currently serve, so it is nothing new to us. We are confident of penetrating the market.
- Balaji Prasad** Okay, great. I just had a second question on your ANDA filings. Just do not see the needle having moved much in terms of the product filings, any particular reason for it? Or is it just that you are bunching your ANDA filings and we could see the number revert in the next quarter?
- GV Prasad** You are right. I think it is an issue of timing and bunching.
- William Kirby** I just have one question on your gross margins. Please can you take us through what is leading to the volatility in gross margins? I appreciate that there were various one-offs so the gross margin was 51% in last quarter, but just what other factor were leading to that changing trends, please?
- Umang Vohra** I will give you a small overview of that. The gross margin is typically for us has been in the 50% to 52% range. That is a base business gross margin. This quarter we had 47% because there was a charge of €6 million in Germany, this is taken on account of inventory write-downs and there was about \$4 million on account

of shelf stock adjustment in the US with regards to Sumatriptan. So if you add those two back, we are back at the base business gross margin range of 50% to 52%.

Nimish Mehta My first question is regarding Fexofenadine D tablet for Allegra-D tablet, you mentioned having being the only filer so, do we assume that you will be launching at risk post the 180 day exclusivity after first-to-file company?

GV Prasad No, no, we are the first-to-file on this product. So we have to wait for the 30-month approval and the resolution of the litigation. So it is a bit premature to answer your question in terms of our strategy whether we will launch at risk or not.

Nimish Mehta Okay and this is regarding D12 or D24?

GV Prasad D24.

Nimish Mehta Okay, another question is regarding the Russian market, you mentioned that in rouble terms the growth has been at about 27% and it is kind of the same even when it comes to rupee terms, so how do we reconcile given that rouble is still depreciated on a YoY basis versus INR?

Umang Vohra I think the 27% that you mentioned is a dollar movement and not necessarily the Ruble movement. I am sorry you are right, the local currency growth for us has been 45% and not 27%, 27% is the industry growth. And the way to reconcile this is that we would mitigate any impact of the rouble devaluation through a price increase.

Nimish Mehta Okay, so you have so far not taken any price cut or hit or?

Umang Vohra Not as yet. We have taken the price increases in about three quarters back when the rouble was very volatile and depreciated rapidly.

Sally Yanchus Just wanted to talk a little bit more about Germany, you said that, you expect a new round of tenders this year that somewhat could negatively impact betapharm's business. Maybe you could clarify do you expect to see just overall

more aggressive pricing pressure on all the competitors or do you expect to see them standardize on fewer vendors, how specifically do you expect betapharm to be effected here and is this say a byproduct of the new government in Germany? Thank you.

Umang Vohra

I would probably say that it is still extremely uncertain, the situation in Germany. The tendering process is continuing, but the form of the tenders whether they would still be sole awardees or there would be multiple winners for the tender is one question. And the second is the new government's statements in terms of the powers of the sick funds. So we do expect that the market would have pricing pressure and it is clearly our business is not out of that as yet. But there is a fair amount of uncertainty into that business in this quarter. A lot of tender they are going to be opened in the October to December quarters, they are going to be awarded, and the government's going to issue a statement in terms of the healthcare scenario and I think once that happens the situation would be relatively more clear at the end of this quarter.

Sally Yanchus

Okay, and could you also clarify you mentioned one-off benefit from flu vaccine in Germany was that this quarter or a quarter a year ago?

Umang Vohra

It was this quarter and this also happened in the previous year. But it was to a much lesser extent in the current year.

Ranjit Kapadia

Sir, can you give some colour on the Russian market, because we have been hearing that in the market GDP growth rate has come down to (-9%) recently and that market is totally having a problem in Russia?

Satish Reddy

Well I think it takes time to stabilize, right, as far as the market is concerned, so de-growth continues in the market, it happened in the first quarter, it continued in the second quarter as well. So we also face a de-growth in the first quarter and the second quarter because of the volumes increase it has been quite all right. So generally what we are saying is for the rest of the year the growth will be somewhat subdued. Because in the previous year, it was quite an aggressive growth. What we are saying is it will be subdued, that is all we are saying. It is not a disaster the way you are thinking about it.

- Ranjit Kapadia** And sir, regarding, Omeprazole OTC product what sort of advertising promotion are we planning?
- GV Prasad** It is not going to be advertised, it is a store brand, so it is basically going to be substituting the advertised brand.
- Ravi Agarwal** Just one question on margins generally I think this quarter the particular I am impressed about the margin considering the fact that Sumatriptan we have not had too much of contribution and the domestic business is still around 12%, 13% growth, just wanted to get a sense about what kind of margins are we looking at going forward considering Omeprazole is going to come in and hopefully domestic business also going to do well. Are we expecting to maintain these kind of margins or do you see some impact on margins, what's your view on that?
- Umang Vohra** We have not guided on margins exclusively but let me try to give some context to your question. Typically, our business over the last two years has been in the 50% to 52% margin range and if you take out those exceptions you will come back to that range for the current quarter. So without Sumatriptan our business would operate at 50% to 52% range.
- Ravi Agarwal** Okay, the second question is on PSAI, especially Europe, I have seen some very strong growth coming there, specific reason I mean you have mentioned that there will be some exchange rate benefit as well, but any specific reason and what is the outlook on especially Europe?
- Satish Reddy** It is just have to do the product mix, so there is nothing really exception out there.
- Ravi Agarwal** Is it sustainable, is it something which we continue to expect going forward?
- Satish Reddy** Yes, overall at the PSAI business, yeah, it will sustain, top line as well bottom-line, yes.
- Ravi Agarwal** The other thing was on the tax rate, I missed some part you mentioned there was something which under tax is actually quite significantly up against even our expectation of 16%, 17% for the full year?

- GV Prasad** This is related to the expiry of the 100% EOU benefits that we used to have in our formulation manufacturing plant. So I suspect that rate will remain around at 17% for the quarter.
- Ravi Agarwal** I am sorry, this is the full year the tax rate you expect to be it on 18-19% now?
- Umang Vohra** Yeah, we are guiding to about 18% to 20%.
- Bino Pathiparampil** Just for this Omeprazole OTC launch do you already have contracts tied up with stores?
- GV Prasad** We are going to launch in the next few weeks and we will launch the product into the retail chains. The contracts are usually constructed just a few days before the launch depending on the prevailing pricing and discount structure, so there is no such thing as contracts that are existing today.
- Bino Pathiparampil** Okay, right, and just one quick question, on the Antara deal you are launching of Antara is that linked to some other generic player launching?
- GV Prasad** We are not sharing our specific nature of the deal, but it is likely to have limited competition.
- Sameer Baisiwala** First question is Allegra D24, the risk profile for the launch, is it any different from the plain Fexofenadine?
- GV Prasad** It is a little different.
- Sameer Baisiwala** Okay, much higher risk profile, when does 30 months get over?
- GV Prasad** It is different. I cannot tell you whether it is lower or higher. It is a subjective assessment. The 30 month clock expires in March.
- Sameer Baisiwala** Okay, and on Lotrel settlement, would there be any upfront payment involved?
- GV Prasad** No.

- Sameer Baisiwala** Okay, and just one final point on US product recall, is it a contained problem or could there be more recalls as you go forward?
- GV Prasad** As of now we have no outstanding complaints. Having said that we are doing a lot of work within the plant and as a result some level of production slowdown has happened. So we have put in some new equipments, some new procedures as a result of the investigations we did. So at this time we believe is contained to those four specific lots.
- Sameer Baisiwala** Okay, any thought on the GSK equity deal which keeps getting reported in the press?
- GV Prasad** No, we cannot talk about any speculative news that comes in the press.
- Balaji Prasad** Hi, just a follow up question on the German business, while our expectations are that the AOK tenders would drive sales growth through volumes or at least maintain revenue growth, revenue as per last year's levels though we do not see it, happening any clarification on this?
- GV Prasad** I think we did think that we would maintain sales but that was dependent on a hypothesis that we could maintain our sales in some of the non-tender products. So I think we lost share rapidly there on the products for which we did not win tenders and that has really impacted the performance of the company in that country.
- Balaji Prasad** What is the reason that you lost market share over here on these non-tender products?
- GV Prasad** The other guys who got the bids they took very rapid market share. So the products where we won the bids we gained share very rapidly, we lost share very rapidly in the products that we did not win. Overall, the situation is still evolving and we have to wait and see how the market will stabilize in the next couple of quarters.

- Cheenu Gupta** My question is regarding the SG&A expenses; we have seen a sharp reduction in those expenses in this quarter. Could you just take us through some key initiatives, which have led to those?
- GV Prasad** One major initiative is exiting a large number of small markets, where we were spending money and not really gaining traction. In betapharm we brought down the sales force there, so that helped us for the social plan. So a combination of factors of tight control plus some restructuring that we did in the company has helped us manage SG&A effectively.
- Umang Vohra** Also the last quarter had a one-time charge on account of our social plan, so that charge was there in the previous quarter and this quarter it is not there. So that is one reduction. And second as Prasad mentioned because of the social plan the same number of salaries and people are not there in betapharm, so that is the other reason why also SG&A has gone down.
- Cheenu Gupta** Okay, sir, going ahead we can expect these levels to either sustain or maybe even improve from these levels?
- Umang Vohra** I would not think that they would improve dramatically but this could be the rough range we are looking at.
- Cheenu Gupta** Okay, and sir, secondly out of our total German portfolio what percentage of it would be under the AOK tenders?
- Umang Vohra** 40% is roughly the portfolio that the AOK had tendered. There is a subsequent AOK tender and there are several other tenders which are coming up, but as of, the AOK itself is just 40%.
- Cheenu Gupta** Of our sales in Germany?
- Umang Vohra** Of our portfolio in Germany. But that ratio will continue to change depending on how much of the tenders we win or lose going forward.
- Cheenu Gupta** And can you just tell me if you can throw some light on the growth prospect of PSAI segment in this current environment?

- GV Prasad** It will be in the teens, low teens, between 10 and 15 in the next few years. That should be a sustainable rate of growth.
- Nimish Mehta** Just once again on the Allegra D24 franchise I assume that then Dr Reddy's will not be launching Allegra D12 as of now there is no such plan and please correct me if I am wrong, Allegra D24 launch will be after D12 so do you still expect limited competition and substantial upside for the product?
- GV Prasad** I think the assumptions that you make may not be entirely right. It depends on how the case comes out and how the approval comes. I really cannot give you a definitive answer on how this would behave.
- Nimish Mehta** Okay, are we there on Allegra D12 also?
- GV Prasad** Well along with the others post exclusivity we will be there.
- Nimish Mehta** And one more clarification I wanted to have is that you mentioned that there will not be any significant marketing cost for Omeprazole OTC, is that correct?
- GV Prasad** See, somebody asked a question whether we would have to advertise. So our OTC business is not a direct consumer kind of thing, but it is really a store brand which will substitute the advertised product.
- Nimish Mehta** Okay, can you throw some color on what kind of marketing cost?
- GV Prasad** Marketing costs are not significant, it is basically selling to key accounts, but the ramp up will be slower than a generic in this case.
- Nimish Mehta** Okay.
- GV Prasad** Okay, that's what it is.
- Sonal Gupta** Just a couple of questions, one was on if you can share some numbers on Nateglinide contribution for this quarter?
- GV Prasad** We do not give product level sales. It is not very significant.

- Satish Reddy** It is not significant is it was launched in September that is right, so it is in initial phase so it is not much.
- Sonal Gupta** Okay, on the US FDA issues, when was your US FDA approved formulation facilities last inspected?
- GV Prasad** About a year ago I think. We will have an inspection now and it will be inspected in November.
- Sonaal Gupta** So next month it will be inspected?
- GV Prasad** Right, this inspection scheduled much before the recall actually happened.
- Sonal Gupta** Okay and how many approved facilities do you have for formulation?
- GV Prasad** We have two, one here and one in the U.S.
- Sonal Gupta** Okay, and my final question was on Lotrel, given that there are other players who also settle with Novartis and given your deal structure do you see yourself being potentially able to launch in the next say one to two years timeframe?
- GV Prasad** I cannot answer that question.
- Abhay Shanbag** Yeah, this is Abhay Shanbag, just couple of questions, number one, follow up on the U.S. FDA inspection, the plant that you have in the US is that acquired one from one or two years back.
- GV Prasad** Yeah, it is the one we acquired from BASF.
- Abhay Shanbag** Okay, so all your generics typically happen from the Hyderabad plant?
- GV Prasad** Currently it does, but we are shifting some products into the US facility and slowly over time this will support the US generic business.
- Abhay Shanbag** Okay, and as far as GSK deal goes I mean our understanding was that you would not have much of excess capacity so would you be looking to ramp up your Capex, we have not seen that in the first half, so would we see that happening?

- GV Prasad** You will see that happening. We are investing significantly both in the API and the finished dosages business so we will be creating large capacity for the next two years.
- Abhay Shanbag** Okay, any sort of Capex number you could guide and would it be like \$100, \$200 million in the next two years specifically for this one or..?
- GV Prasad** Yeah, it will be in that range.
- Abhay Shanbag** Okay, and what would be the number you could look at GSK, it is about say three to four years' time, would it be 5% to 10% of revenues or what sort of numbers can we guide?
- GV Prasad** It will be a meaningful number, but it is too early to give you specific numbers.
- Abhay Shanbag** Just one last question, the U.S. growth has been very high at 36%, is there any new product where some channel selling or anything was done or it is just that largely, I mean your volume growth in the existing ones?
- GV Prasad** Volume growth and new launches, both put together.
- Abhay Shanbag** I believe not willing to differentiate between one and the other?
- GV Prasad** No.
- Alok Dalal** Yeah, any update on Fondaparinux?
- GV Prasad** There is no update as such, it is being reviewed, we have received some comments, we are responding to that.
- Akshat Vyas** Yeah, good evening, my question pertains to the U.S. market. Can you put some color on the U.S. market in terms of overall growth and how the things are happening in country over there?
- GV Prasad** I think this question is very specific to each company. The growth will depend on the pipeline we have and the base that we have. At Dr. Reddy's we believe that it is a high potential market for us. We are not yet in the Tier I of the business, we

are still at the second level, we are Tier II competitors, there is a lot of headroom for growth in the U.S. market.

Akshat Vyas But are you seeing some kind of price consolidation in the sense like the kind of price which used to happen in the past, there is some stability to come?

GV Prasad There is no stability. This is a generics business we compete on price. And this is always been the case, it will continue to be that.

Akshat Vyas Okay, the second thing is that what would be the impact if rupee appreciates to overall you know bottom line of Dr. Reddy's if you can quantify in terms of like 5% appreciation in the rupee?

Umang Vohra Yeah, so for this year it will not be significant because of our hedging strategy and for next year we will be taking up our hedges to ensure that we do not have any meaningful impact. So our hedging strategy we have declared that our hedge exposure was \$400 million and we would typically cover roughly about 60% of that.

Akshat Vyas 60% of net exposure?

Umang Vohra That is right.

Akshat Vyas Okay, at what rate we have contracted?

Umang Vohra Our current hedges are in the 47 to 52 range.

Nitin Agarwal I want to just get some more color on the Nateglinide situation. You said you are right now the only player in the market. How do you see that the landscape really playing out over here?

GV Prasad There are two players in the market, we are one of them. We just launched the product and it is going to be a decent product for us.

Nitin Agarwal This is through generics or this is innovator?

GV Prasad Two generics apart from the innovator.

- Nitin Agarwal** And you see this kind of a limited competition lasting for a while?
- GV Prasad** It depends, there is one more approved product there but that guy has not launched, we do not know the situation.
- Nitin Agarwal** Okay, and secondly you know on the R&D cost now lot of these ANDA filings really bunched up in the second half do we see a material jump in the R&D charges going forward?
- GV Prasad** Overall we will take it as a 5% that we plan for, but yeah some R&D cost has moved from the first half to the second half.
- Nitin Agarwal** Okay, thanks very much.
- Nimish Mehta** Yes, thanks again. You mentioned about the deal on Antara with Lupin and you also mentioned that it is likely to be a low competition generic launch. Can you explain given the fact that TriCor that is Abbott's fenofibrate going to lose patent in 2011?
- Umang Vohra** Yes, I think Antara is slightly more differentiated product than pure Fenofibrate and we therefore have taken this as a strategic call for a launch at a much later period.
- Nimish Mehta** Would you expect the launch after genericization of TriCor?
- GV Prasad** Right.
- Nimish Mehta** Okay, and still it will be a I mean because of the differentiated aspect it will....
- GV Prasad** Yeah.
- Nimish Mehta** Okay. And second, in general, have you seen any kind of price stability in the U.S. generic market or any color on that?
- GV Prasad** There is no general trend as a business. Certain products which are in short supply the price will go up and this is basically a commodity business you have to compete on price and the situation continues.

Nimish Mehta Okay, thanks very much.

Moderator Thank you. Ladies and gentlemen due to time constraint that was the last question, I would now like to hand the conference over to Mr. Kedar Upadhye and the management for closing comments.

Kedar Upadhye Thanks to all of you for joining Dr. Reddy's management for the earnings call. In case of any additional clarifications IR Desk is available to address those clarifications. Thank you.