Dr. Reddy's Laboratories Limited

First Quarter Fiscal 2010

July 21, 2009

Kedar Upadhye: Thank you Melissa. Good morning and good evening to all the participants and welcome to Dr. Reddy's Earnings conference call for the 1st quarter ended June 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 discloser we are conducting a live web cast of this call and a review 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. Please note that all discussions and comparisons during the call will be based on Consolidated IFRS financials and the IR Desk will be available to answer any query relating to Indian GAAP immediately after the conclusion.

To discuss the results 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 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 web cast. I would now like to turn the call over to Umang Vohra, our Chief Financial Officer.

Umang Vohra: Thank you Kedar. I welcome all of you on the call today. Before I begin I would like to mention that all rupee figures have been translated at the convenience translation rate of 1 US Dollar to Rs. 47.74.

The financial highlights for the 1st quarter are as follows:

Revenues are at $381 million, which represents a growth of 21%, this includes Sumatriptan revenues of $43 million. Excluding revenues from Sumatriptan our growth is at 7% year-on-year. Revenues from the Global Generics business are at $273 million and this grew by 27% versus the quarter last year. Revenues from PSAI business are at $102 million which represents a growth of 6% from the quarter last year.

The gross profit margin at the company level is at 56% as against 50% in the previous year and reflects the benefit of high-margin sales from Sumatriptan as well as certain cost synergies that we have been able to obtain in this year. Excluding the impact of Sumatriptan our gross margin percentage is higher than last year. Within the segment the margins for Global Generic and PSAI are at 64% and 35% respectively. SG&A expenses at $124 million, registered a growth of 17%. This includes two exceptional items. First the exit cost of the sales force at betapharm amounting to €7.2 million and second the cost related to the closure of our Atlanta Research facility amounting to $1.5 million. Excluding these exceptional items our SG&A expenses grew by 6%. EBITDA at $91 million represent a growth of 90% over last year and at the current EBITDA level the EBITDA is at 24% of sales. PAT at $51 million as against $23 million in the previous year represents a growth of 120%. In the same comparison PBT at $66 million shows a growth of 65%. This quarter our mix of business from North America is higher and as a result of this our tax rate is 23% versus our full year estimated tax rate of 17%.

Diluted EPS is at 30 cents for the quarter. Adjusted PAT is at $60 million translating to an adjusted EPS of 35 cents and a growth of 116% over the previous year.

Moving on to the balance sheet, on receivables we had a release of $26 million during the quarter, largely from the outstanding Sumatriptan collections at the beginning of the quarter. Inventories increased by 15 million during the quarter in line with the requirements for expected launches in subsequent quarters. Capital expenditure was at $14 million and is expected to scale up in the subsequent quarters. We continued with the foreign currency exposure hedging practices as per our policy. As of June 2009 we currently have $138 million worth of cash flow hedges. The total net debt of the company is at $208 million and this translates to a net debt-to-equity ratio of 0.22.

I would now like to turn the call over to Satish, our Chief Operating Officer.

Satish Reddy: Thank you Umang.

I will now take you through the key highlights of the quarter:

Our Global Generics segment revenues grew by 27% over the previous year. As we had indicated in our previous earnings call we were able to extend the gains from the Sumatriptan opportunity well into the 1st quarter of this year in the US market. Russia and

Germany witnessed a slowdown relative to the previous quarters while India is beginning to turnaround as shown by the trend in the increased sales month after month this quarter. Growth in other emerging markets besides India and Russia clocked a very good performance for the quarter.

So let me now cover each of our large markets starting with North America. Revenues in the US were at $123 million which represents a growth of 83% largely driven by Sumatriptan as well as volume expansion in many of our top products. Even if you exclude Sumatriptan our year-on-year growth is 21% and sequential growth is 12% in dollar terms. In Sumatriptan we continue to hold on to a majority market share, however, from the second week of August we expect multiple players to launch the product. About a month ago Omeprazole Mg OTC was approved by the USFDA and we are hopeful of the launch by the middle of this quarter. The window of opportunity for this product will be much higher than a usual 180 day exclusivity product and we believe that it is likely to be a three-player market in the near-to-medium term.

We now have 67 ANDAs pending approval at the USFDA that address innovative sales of $68 billion. Of these pending approvals 28 are Para IVs, out of which 16 are FTFs. And the 16 FTFs address the market size of $9 billion.

Moving on to Germany, starting June this year AOK tendered product supplies have started. While it is too early to predict the pattern of sales in the German market based on this particular development the initial destocking in the market on account of AOK tender has resulted in a degrowth in revenues for Dr. Reddy's.

Revenues are at €24 million for the quarter which represent a 38% fall over the previous year. For the eight products that we won in the AOK tender we have seen a significant increase in volumes. We are also seeing a fall in volumes of non-AOK products. However, we will be in a better position to comment on this trend only after the few months of supplies to the AOK.

We are seeing an increased trend of tender activity by other Health Insurance Funds also and this is clearly emerging to be a dominant trend in the German generics market. In this scenario, our plans of ensuring cost competitiveness and evolution towards the frugal organization structure are absolutely on track.

During the quarter we agreed for a social plan with the Work Council and as a result we have restructured our sales force to reduce to approximately 50 today from 110 as of March 2009; even this field force of 50 is largely covering pharmacy reps. as of today, no more of physician sales force. So on account of this we have taken a one-time severance charge of €7.2 million. With a significant decline in prices in Germany and the balance of the market moving towards the tender-based model we expect continuing challenges from this market which is likely to cause our revenues and profits to be lower than the previous year.

Now moving on to Russia, revenues are at $31 million registering a fall of 13% over previous year. The growth led by price increases in products was offset by the depreciation of ruble currency. The volumes were lower compared to the previous year due to correction of the inventory holdings by the trade and also partly due to the liquidity issues. The secondary prescription sales trend for the generic pharmaceutical market in Russia for the month of May and April, compared to the same period last year indicates a degrowth of 4% in volumes which is a degrowth of 5% in dollar value and growth of 34% in ruble value terms. During these two months our secondary sales grew by 3% in dollar value terms, and 46% in ruble value terms. However, the volumes were lower by 8%.

The ongoing financial crisis has impacted liquidity in the Russian market. We continue to maintain our focus on receivables and credit terms and we are holding on tight in spite of the possibility of losing sales due to this stance of ours. In spite of the difficult situation in the market we have grown modestly if you compare sequential quarter-on-quarter sales, which is at 5% in ruble terms. We believe that we will be among the better performing players in Russia in spite of the current situation in the market and the sales trend in Russia normally shows a pickup in the 3rd quarter as a consequence of which the second half performance is usually better than the first half and we are closely tracking the situation.

Now I move on to India. Revenues are at Rs. 2,393 million as against Rs. 2,202 million in the previous year which represents a growth of 9%. The growth was led by some of our major brands, Omez, Nise, Omez-DSR, and Razo. In our previous earnings call we had talked about implementing certain measures combined with our supply chain excellence to help us return firmly on a growth path in India. We have now begun to see this turnaround in this quarter.

The secondary sales trend for the two months, April and May shows our growth slightly higher than the market growth rate of 10%. As we have now matched the industry growth rates our next focus in our efforts is to grow at par with the Top 10 in the industry. We have also just received the June IMS figures and against the market growth rate of 18% for the month Dr. Reddy's has grown at 24% so which again is a positive trend for us.

Sequentially the value growth is at 16% largely on account of volume growth of 14%. We have launched 14 new products in India for the quarter and the contribution from the new products compared to the previous quarters is much better and we expect the number of new products to be launched to gradually increase in the latter half of this year.

Talking about the PSAI segment of our business, the trend in the order book which had weakened in the second half of the previous year has shown an improvement. It is up 27% from the earlier quarter which represents approximately two months sales. More than two-thirds of our order books compared to the orders for the regulated markets of North America and Europe and we see the business growing faster for the balance of the year. As a result of this our revenues for the PSAI's business grew by 6% over the previous year.

With the reversal of the recessionary trends in some of the unregulated markets we are beginning to see traction for this business in these markets. In the regulated markets we have been able to create a strong pipeline of launches and key customers. We have cumulatively filed 355 drug master files globally till date of which 288 are DMFs related to the regulated markets. We expect the PSAI's business to grow in double-digits for the balance of the year.

Before I conclude just a quick comment on the regulatory situation. In the recent past we have been hearing about a number of Indian and US industry players attracting USFDA action on regulatory aspects. Our focus at Dr. Reddy's on the regulatory and compliance aspects is for our development and manufacturing facilities remains high and we have adequate infrastructure in place to ensure the required compliance. Few months back some of our API plans were inspected by USFDA and we are pleased to inform that we have had no major audit observations.

I now hand it over to Prasad.

GV Prasad: Thank you, Satish. Before we begin the Q&A session I would like to comment on our guidance and also briefly discuss our strategic alliance with GSK as well as a few of the ongoing key developments.

At the beginning of this fiscal year we guided to a 10% sales growth over the high base of the previous year and a RoCE of mid-to-high teens. We remain fully committed to this guidance. And on a full year basis we continued performance of our US base business, India and the PSAI. The impending Omeprazole magnesium OTC launch will help offset the headwinds that you are seeing in Germany as well as partially in Russia. Also the ongoing cost control initiatives are showing the desired effect and this will enable us to meet our guidance on profitability.

Let me touch upon the strategic alliance with GSK. This partnership will expand our reach in emerging markets and leverage our product portfolio and process development strengths across generic formulation and differentiated products with GSK's market knowledge and extensive presence in emerging markets. It is also a matter of pride for us to work with a reputed global leader like GSK and realize the full potential of all our strengths.

In the past Dr. Reddy's expanded into several emerging markets on the strength of our capability in product development and marketing skills to a mix of front-end options such as distribution driven in some markets, joint ventures, and direct presence in few markets. While this served the purpose initially in establishing a global footprint it increasingly added to the complexity of operations as the company scaled up its presence. In a shift in our strategic approach in line with our long-term goals we decided to exit some of these emerging markets and decided to focus on large market that offered headroom to grow significantly and contributed to the overall corporate performance.

With this GSK alliance we are now able to access the market with a fresh value proposition without resourcing up the front ends which may conflict with our approach on sustained profitability. After the deal announcement we have now started working together with GSK and are in the process of identifying the portfolio for several emerging markets.

I also want to reiterate some of the other ongoing value enhancing strategic initiatives. The rollout of excellence in the supply chain model across our businesses and geographies is gaining momentum and is progressing well. We are on track to significantly improve our performance at the global level. Secondly, the restructuring of our R&D processes. We have now completed the integration of our Discovery facilities and key employees with Aurigene, our partnership led discovery business. We have also closed down our Atlanta facility. And these initiatives should lead to improved productivity of our R&D spend. Thirdly, our portfolio planning and capacity exercise is nearing completion. And the plans to invest in SEZs are now finalized. Land acquisition for both the SEZs has been completed and we have now begun updating licenses to commence construction at both these sites.

Finally on the biosimilar front, the recent move by the US Senate Health Committee to give biologic drug developers 12 years of exclusivity from the date of the drug's initial launch could be seen as a negative development for the regulated market business. Our current biologic strategy is focused on commercialization in India and other emerging markets where significant opportunities for growth do exist. We continue to track further development in the legislation process in the US Senate but at the same time we are investing in building infrastructure for the development and manufacturing of biologics.

We are focused on building our regulated market business model and are exploring partnerships in line with calibrating our R&D investments. Meanwhile our less regulated market strategy will be supported by partnerships in several markets and the launch of two biosimilar products is planned in India later this year.

Now thank you very much for your attention and we will be happy to take your questions at this time.

Punit Adhia: Can you please tell me the breakup of AOK business and non-AOK business in betapharm?

Satish Reddy: We cannot comment on that because it has just been one month of sales in June plus we do not give breakup of sales activity at a customer level. Punit Adhia: What was the EBITDA from betapharm this quarter?

Satish Reddy Again, I think we have also mentioned in the previous earnings call that we now look at Global Generics as a whole business and we will not be able to share any country P&L items.

Punit Adhia: And in this quarter your gross margins were higher and you mentioned that that was because of your US business. That will continue going forward, this high gross margin?

GV Prasad: To a certain extent, there will be some fluctuation in the margins as Sumatriptan ends in August.

Punit Adhia: But without sumatriptan also your margins were higher in this quarter?

GV Prasad: That is sustainable.

Punit Adhia: Okay. And can you tell me is there any margin reduction in Russian business or no?

GV Prasad: No. There has been no significant contraction in margins there?

Manoj Garg My question pertains to the GSK, when do you start launching products post-GSK tie-up in the emerging market?

GV Prasad: There will be some marginal sales this fiscal year, but it will be very small. The sales will build up to meaningful numbers in the 12 to 18 months timeframe.

Manoj Garg: Okay. Which are the markets where you would like to focus as an individual entity?

GV Prasad: See we are currently focused on a few markets starting with Russia and the CIS belt, Venezuela, Brazil, South Africa, Australia and New Zealand. These are the markets which will continue to grow. But we do not see us entering into any new territories in the near future.

Manoj Garg: But does it mean that in these markets GSK will not tie-up for schedule.

GV Prasad: Not necessarily. GSK has rights to launch products in those markets and we can also co-launch along with them. So the agreement provides for both of us to co-exist in certain markets.

Manoj Garg: Will this agreement also include your existing products maybe like new molecules and maybe new brand name?

GV Prasad: It includes both existing and future products.

Manoj Garg: Then how will be the like sharing of the profit and other things?

GV Prasad: We are not sharing specific of the deal. The transaction terms are contractual.

Manoj Garg: Okay. That is from my side. Thank you.

Sally Yanchus: Question on the German market, do you have an estimate of how much value decline you are expecting in the overall German market this year? That includes AOK plus non-AOK business, just an estimate for the market. Do you have any estimate for how much you expect the market to decline in value? And then secondly on the tenders for the AOK is there – you mentioned there is a lot more competition for these tenders. Are there contracts or tenders where you will simply not bid on because you are not making enough margin, i.e., if there some price which you will just not interested in participating?

Satish Reddy: Okay. As far as sales is concerned I cannot give a specific number on what we expect the sales to be, but broadly I have said that compared to say the previous years of €150 million of the revenues we expect based on the 1st quarter's trend that it will be lower. That is what we have said broadly. So that is on the sales part. When it comes to the continued tenders what is happening is more and more of the insurance funds are going in for tenders and it will remain competitive but we have shown ability to win products in the tenders, eight products we won last time which represented 33 contracts and we will continue to bid aggressively for all the tenders that keep coming up.

Sally Yanchus: Okay thank you. Just one further question on Omeprazole OTC in the US, what is your strategy to penetrate the market and gain market share in the US it is a different market for you in this commodity generics?

GV Prasad: We have been participating in the OTC market for some time now. We expect to slowly gain market share, but we do not expect a huge price decline.

Sally Yanchus: Thank you.

Balaji Prasad: I just wanted to get some clarity on the domestic market growth. What do you think could be the market growth rate itself per se, not just of Dr. Reddy's and what do you think would be headwinds for this growth? Could NPPA or lack of fresh launch will be headwinds for this growth maybe this year or next?

Umang Vohra: Balaji, our expectation is that the growth in the market would be close to 14% or so. And as Satish has mentioned we have matched market growth rate so far. This month we have beaten market growth rate. And our expectation is to grow at par with the top 10 people going forward.

Balaji Prasad: Thank you. My second question was on AOK. Do you see fresh tenders coming in over there in the near future?

Umang Vohra: We have already announced, Balaji, there is another list of about 94 products which are going into tender. These are smaller products than the ones that originally went on to the tender and this tender would begin supplies from January. So we expect the bidding to be in August/September for this.

Balaji Prasad: What is the market value of this? Like the earlier tender was for around $3 billion…..

Umang Vohra: This is significantly lower. We can get back to you with the exact detail, Balaji. This has just been announced about three to four days back.

Balaji Prasad: Sure. Thanks a lot.

Mitul Mehta: Sir, this is Mitul Mehta. What would be the size of the Sumatriptan market in US alone? And what kind of margin erosions do we see once more and more clear I mean to say?

Umang Vohra: I think we do not know what the exact value of the market would be because it is now a multi-player market. This was approximately I think a $700 to $800 million drug, at innovater sales close to a billion. And we would think that once the other players come in, the pricing would crash much further and it will be at par with other product prices in the market.

Mithun Mehta: Currently the margins on these particular products would be as higher 70%-80%?

GV Prasad: We do not give out margins on specific products.

Mithun Mehta: Okay. My second question would be what kind of capex do we plan to spend this year and year after that?

Umang Vohra: We have guided earlier during our annual call. We are looking at about $100 to $125 million capex in this year and probably going forward as well.

Mithun Mehta: Okay. Thank you very much.

Abhay: Hi, this is Abhay here. Just a question on gross margin. What have been the drivers of gross margins, is it better product mix, is it raw material prices coming down or is it currency?

Umang Vohra: I will say all three. There has been an element of mix of the businesses. There will also an element of the fact that prices have come down on the raw material side. Some of the products for which we have taken the cost improvement measures are now beginning to show, as well as the fact that forex rates are effectively better than last year.

Abhay: And as you indicated on the question earlier you would expect gross margins to continue?

Umang Vohra: Yes, our expectation is that we would have gross margins probably better or at par with last year levels.

Abhay: Just one last question. In terms of Sumatriptan what is the level of inventory in the system for sumatriptan?

Kedar Upadhye Abhay, we will not be able to share at this moment.

Abhay: Okay, fine. Thank you.

Ravi Agrawal Just two questions actually. One is on the GSK alliance, just wondering is there any further capex which you might have to do this on account of this alliance and in terms of the kind of products which you are planning to make use?

GV Prasad: Not immediately, but certainly as the volumes increase we will need to look at our capacity. But in any case we have budgeted and planned for the investments in SEZs, which is more than the adequate for the expansion, but it will not be significant relative to the overall business.

Ravi Agrawal And the second question is on the margins, I know you do not want to share specific to any particular category of product, but typically in these kind of alliances would the margins actually work out to be better than let us say some of the returns which you might be making on some of your other RoW markets today?

GV Prasad: See the thing is it is a branded generic market that we are going after. So to start with the realizations are much better than commodity generic market. And then if you look at it the fact that there is more SG&A involved, overall these products will be pretty attractive for Dr. Reddy's.

Ravi Agrawal Even on the transfer facility because they will be sharing a part of the revenues with us?

GV Prasad: That is what I said, yes.

Ravi Agrawal The second question again on COGS something which I know people have asked this question, but is there any element of any one-off each other in the COGS because the margins have really expanded very sharply?

GV Prasad: There is the whole Sumatriptan which is limited competition as of now. So that certainly has a bearing on the margins.

Ravi Agrawal: My final question, I see you have not filed any ANDAs this particular quarter, is there any specific – is this just something which has happened or some specific….

GV Prasad: It is just a matter of timing. I think we will soon see filings.

Ravi Agrawal: Okay. Thanks a lot.

Krishna Kiran: Sir, I have two questions. First question conversion rate of euro to rupee, how much it is?

Kedar Upadhye: It would be roughly 67.

Krishna Kiran: Sir, regarding SEZ, like two SEZs are upcoming, what would be the capex for both of them?

GV Prasad: It is hard for me to give you precise numbers as the scope of the project is still being developed, but we look together, and both these SEZs should be in the region of $150 million.

Krishna Kiran: Okay, sir. Thank you.

Bino Pathiparampil: Just a follow-up on betapharm, I understand that there has been a stocking down in the non-AOK products, but I would naturally expect a stocking up on the AOK side of the business. Will that happen in this quarter or is it likely that we will see that ahead?

Satish Reddy: Let me clarify. When you said de-stocking that happened that was before the supplies on the AOK tendered products commenced. That is what I was referring to, right? So from the June onwards there will be a ramp-up. That is what happening right now.

Bino Pathiparampil: Okay, right. And just a couple of housekeeping questions. One the amortization charge seems to have jumped up over the previous quarters how is that accounting?

Umang Vohra: Bino, the amortization charge in this quarter includes the charge for the beta brand and earlier this was an indefinite life asset which we now convert to a definite life asset. So we amortize it, earlier we were not amortizing it. And we have guided towards this at our annual call as well. So there seems to be increase is largely on account of that.

Bino Pathiparampil: Right. This will be roughly the rate going forward?

Umang Vohra: That is right.

Bino Pathiparampil: And also could you just tell once more what were the one-offs included the SG&A one I think was €7.2 million regarding the sales force reduction?

Umang Vohra: Yes. And the second was the Atlanta research facility where we have closed that facility. That amounts to about $1.5 million.

Bino Pathiparampil: Okay, I will join back in the queue. Thank you.

Madhu Chanda Dey: This Sumatriptan opportunity is kind of coming to an end and you have also indicated about a subdued outlook on the German market. And Russian market also seems to be in trouble. In the backdrop of all this, if you could help us understand kind of assumptions that goes into the 10% guidance that you still maintain?

Satish Reddy: Russian market is not in trouble, right. So that is the first thing. All I said about Russia was the first quarter the volumes – generally if you take overall market itself it is de-grown, so at some point of time it will recover. So there is no issue with that. So that is what in trouble the way you think about it. But if you see the sales, right, so when we guided for 10% and we continue to maintain the guidance what we are saying is the US market continues to perform well, on the base business even if you leave out Sumatriptan, and after Sumatriptan gets multiplayer kind of a situation in August, we also have Omeprazole Mg coming in, in terms of launch which will happen this quarter, right, so put that together with India growth which is turning around we also talk about the latest figure in June. So whatever we are losing in Germany and partly in Russia, it will be offset by the growth that we will get from North America and India. That is on one hand. The second thing is that PSAI business like I said starting was low because that was how the plan to be right and we clearly said it will be a double digit growth in the second half of the year. So that should give an indication of what it is going to be.

GV Prasad: To add to what Satish said, there could also be some other interesting launches in the US market apart from Omeprazole during the later part of the year. So overall it gives us confidence that we can meet the guidance.

Madhu Chanda Dey: I was just coming to that if you could just indicate broadly how many new products was factored into this kind of a guidance, beyond Omeprazole?

GV Prasad: I think overall we will look at about 6 to 8 launches, but we are not sharing specific details.

Satish Reddy: So the new product activities more for the India business, where we also have the biosimilars and other than that, there is some new product activity in the US but the contribution from that will not be very significant rather than Omeprazole Mg for this year.

Madhu Chanda Dey: Which basically is going to be Omeprazole and the better outlook on India if I may sum up?

Satish Reddy: Yes and the PSAI business.

Madhu Chanda Dey: Okay. Thanks a lot.

Arshad Perwez: My question is you have said that you have $138 million of cash flow hedges. What is the current mark-to-market position as of June 30, 2009?

Umang Vohra: We do not have a very significant mark-to-market position. Most of the hedges are in the range of 47 to 50 as an average rate. So there is very little of the mark-to-market. It is less than even 10 crores.

Arshad Perwez: Okay, fine. Thanks a lot.

Punit Adhia: Yes, there has been a reduction in R&D expenditure in this quarter; will this be the run rate for the year?

GV Prasad: There is issue of timings. You should not take just a quarter numbers. Numbers could go up a little.

Punit Adhia: Okay. So it can be around 6.5% of sales?

GV Prasad: Yes, around 6.

Punit Adhia: Okay, thank you.

Sameer Baisiwala: First question is Omeprazole OTC, Prasad, what could be our volume or market share expectations, just some ballpark, late teens at the minimum would that be a fair comment?

GV Prasad: I do not want to – we are just launching the product, we are converting customers, the conversion in this private label OTC is a little slower than launching a generic, pure generic, so I am afraid I cannot share more specific details on this product.

Sameer Baisiwala: And you just mentioned about some interesting launch in US later this fiscal, is there anything other than Fondaparinux.

GV Prasad: There are several products, but it is all depending on the regulatory timelines. As of now we do not have approvals in hand, but there are several interesting possibilities.

Sameer Baisiwala: Okay. And these would be low competition dynamics and no litigation?

GV Prasad: Yes.

Sameer Baisiwala: Okay, fantastic. And just one question on Glaxo deal. Was there any compulsion for us to include Russia and CIS geography, given the fact that we are already present and why did you not choose to include biosimilars over there?

GV Prasad: Russia we still retain the right to launch all our products. So what we launch through GSK will only be incremental to us. And their launched brands will be separate brands. So it will be additive overall to the revenue and the business model. Biosimilars are not excluded from the deal.

Sameer Baisiwala: They too are part of the deal?

GV Prasad: It is possible.

Sameer Baisiwala: Okay. Thank you. That is all from my side.

Rahul Sharma: Satish, I missed out on the Russia part. Could you just run me through the volume and the value de-growth which happened in the quarter?

Satish Reddy: Let me just keep on my notes. Umang, can you just…

Umang Vohra: I will just read out Satish's script. The secondary prescription sales trend for the generics market in Russia, for the two months of April and May compared to the same period last year, indicated a de-growth of 4% in volumes, 5% in dollar value and a growth of 34% in rouble value. During these two months our secondary sales grew by 3% in dollar value, 46% in ruble value terms. However, the volumes were lower than the market and they were at 8%. In June, we have got the similar data where our volumes are far higher than the volume reported by the market.

Rahul Sharma: And this 5% dollar and 34% ruble is all in volume?

Umang Vohra: No, 5% dollar and 34% ruble will be in value.

Rahul Sharma: Okay. And June how much was the last figure which you said?

Umang Vohra: In June we are seeing volume, we are almost close to 0% volume de-growth, the industry is lower at about 2% de-growth. And in terms of value, we are higher than the industry I think we have growth at 18%.

Rahul Sharma: How is July panning out to be for Russia CIS?

Satish Reddy: It is too early to talk about it.

Rahul Sharma: Okay. Thanks.

Sonal Gupta: Just continuing with the GSK deal can you just – which are the countries other than Russia, CIS where you have this sort of additive launch option?

GV Prasad: Russia is probably the only meaningfully large country where we have presence and their presence. The other smaller markets like Venezuela, maybe one or two other countries like Brazil, we are not very significant in these markets. The only other major market for us would be Venezuela.

Sonal Gupta: Right. Who will hold the IPR and incur the registration expense, etc., is it going to be shared or how does it…

GV Prasad: If it is specific for a market the cost will be covered by GSK. If it is something that is just an extension of an existing product, there will not be any additional expenses?

Sonal Gupta: Right. Who holds the IPR or the registration going forward, GSK will hold on?

GV Prasad: The brand will be held by GSK.

Sonal Gupta: And the product I mean whatever product you are registering. So it is not later on it is possible for GSK to source that product from somewhere else?

GV Prasad: It is an exclusive arrangement. It is mutually exclusive once products are selected.

Sonal Gupta: For those products GSK cannot procure from anyone else, for those markets?

GV Prasad: Yes.

Sonal Gupta: Okay. And just on the Prilosec OTC, I was just wondering as to what is the reason why you sort of targeted the launch in middle of next quarter, I mean the 2nd quarter?

GV Prasad: Well, there are some launch preparations required when we are launching an OTC private label product which includes packaging, supply chain, and a lot of other things which would have now put in place and we will be launching the product shortly.

Sonal Gupta: Okay. Great. Thank you so much.

Alok Dalal: Sir, what kind of recruitment are we seeing on the quality front, quality and manufacturing?

GV Prasad: What do you mean by recruitment?

Satish Reddy: I am not very clear. What….

GV Prasad: Do you mean how many numbers are being added?

Alok Dalal: Yes I mean in a sense to address the FDA concerns and all…..

Satish Reddy: There is no relation to that because of FDA issue that there is no need to add more people.

Alok Dalal: Okay. But of course the focus on quality will now be much higher as compared to what was earlier.

GV Prasad: No it has always been high. And it remains at a high level. I do not think they have changed anything in our approach as a result of what is happening outside in the market place.

Alok Dalal: Okay. And secondly, what kind of improvement are we seeing on base business, excluding Sumatriptan?

GV Prasad: 7% was the gross on the base business.

Alok Dalal: That is on top line. But on the bottom line there is….

GV Prasad: We are not sharing that kind of detail.

Alok Dalal: Okay, not number wise, but in general, what kind of improvement are we seeing?

Umang Vohra: We mentioned that our gross profit is even without the Sumatriptan was better than last year. And we also mentioned that our overall SG&A grew by 6% without one time. So I do not think we are giving more granular information than that at this point in time.

Alok Dalal: Okay. Thank you.

Karthik Mehta: Hi. Could you just share what is the expected tax rate that we should assume for FY10 and second question is in terms of inventory valuation if Umang could share how would you have typically valued the balance inventory of Imitrex that you have assuming that second week of August you would expect fair amount of competition, in the sense if you could just throw some light on that? Thanks.

Umang Vohra: The effective tax rate you can assume for the full year is 17%. On the inventory valuation the way we do it is we get data of consumption and this past data of consumption is averaged to say what basically a trend of consumption is and the basis of that and the stock statements we get from the distributors we estimate what the shelf stock adjustment should be.

Karthik Mehta: Yeah, but if you just elaborate if you can here this is a particular situation where a high value product would be actually going off within let us say about 40 days or so from the start of the next quarter, Q2 FY10, so in this case, would you still feel that those average prices from your distributors, would you think that would actually……

Umang Vohra: We do not take average prices. We take average consumption and then based it on what we think the price will be.

Karthik Mehta: Would you be able to elaborate is there any expected price differentiation has been adjusted in this inventory?

Umang Vohra: No, we have already mentioned that we expect prices to crash for the product once others enter and there is some reserve that we have created, but we are not giving specifics at this point.

Karthik Mehta: In spite of that we are seeing some increase in the inventory actually in dollar terms about 5%....

Umang Vohra: We have said there is a $15 million increase in inventory in this quarter and that is largely because of the new products that are expected to be launched.

Karthik Mehta: Okay. Thanks.

Ranjit Kapadia: My question relates to SEZ. Our Glaxo deal is going to start in 12 to 18 months, so is it we can safely assume that all the GSK products will be manufactured in SEZ and …..

Satish Reddy: No connection between the two.

Ranjit Kapadia: And are we planning to transfer any betapharm products to SEZ?

GV Prasad: Possible in the future.

Satish Reddy: Possible in the future, but SEZs are a couple of years away, you know so….

Ranjit Kapadia: We have already taken the land and the construction as you have mentioned is going to start, so by next year FY11 we can expect SEZs on stream, and is it possible that in 12 to 18 months gap GSK products will be shifted there or…?

GV Prasad: See, I think this is all logistics issue. It will pan out depending on the product, depending on the market, so there is no general answer that certain markets will be served from the SEZ. As the volumes increase we will move into the SEZs.

Ranjit Kapadia: From the existing EOU facilities also you can – you will be able to move the products?

GV Prasad: Yes we guess.

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

GV Prasad: Thank you.

Kedar Upadhye: Thank you, Melissa, and thank you everybody for joining us on the call. If there are any queries IR desk will be available to resolve that please. Thank you and good evening.