

***Dr. Reddy's Laboratories Ltd.***

***Second Quarter Fiscal 2009***

***October 23, 2008***

Nikhil Shah: Thank you Rochelle. Good morning and good evening everyone and welcome to Dr. Reddy's earnings conference call for the 2<sup>nd</sup> Quarter of financial year 2008/2009. 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 of the call. Additionally the transcript of this call will be made available on our website at [www.drreddys.com](http://www.drreddys.com) under the Quick Links Icon.

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 of the call. To discuss the results and the outlook we have on the call today GV Prasad, our Chief Executive Officer, Satish Reddy, the Chief Operating Officer of the company, Saumen Chakraborty, our Chief Financial Officer and Umang Vohra, the Deputy Chief Financial Officer of the company. 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 Saumen Chakraborty our Chief Financial Officer.

**Saumen Chakraborty, Chief Financial Officer**

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Thank you, Nikhil. We thank all participants for joining us on the call today.

I am pleased to announce that we have successfully transitioned from USGAAP to IFRS reporting effective Q2 FY09.

- There is no significant difference in net profit between IFRS and USGAAP for Q2 FY09.
- The accounting adjustments resulting from the transition for FY07 and FY08 have been incorporated in the opening equity line item as on 1st April 2007 and 1st April 2008 respectively.
- During FY07, we impaired beta brand-value by Rs 60 crores as per USGAAP. Under the IFRS, the assessment is examined at a Gross Business level and has thus been restored.
- During Q3 FY08, the company recorded accelerated amortization of product related intangibles amounting to Rs 240 crores as per USGAAP. This has increased under IFRS to Rs 295 crores.

In the release issued earlier this afternoon, we have provided the following:

1. The revenue and profit details as per USGAAP and IFRS for FY08, Q1 FY09 and Q2 FY09.
2. We have also provided the detailed Income Statement for Q2 FY09 as well as Q1 FY09 to help you model your numbers.

From Q3 FY09 onwards, we will be reporting the results only as per IFRS.

Before we move on to the Q2 performance, I would like to bring to your notice few important aspects that you need to consider while evaluating the Q2 results:

1. The rupee depreciated significantly in the last week of September and was at Rs 46.45 at the end of the quarter. For reporting purposes, the rupee figures are converted to dollar at this rate. However, the underlying dollar figures have been converted into rupee at the quarter average rate of Rs 43.78, a difference of

- almost Rs. 3 which I wanted to highlight. Hence, the dollar growth rate as per the convenience translation rate may not reflect the actual growth trend.
2. In Q2 FY08, we recorded a one-time tax benefit of Rs 151 crs related to betapharm tax rate change.
  3. We recorded a forex gain of Rs. 26 crs. in Q2 FY08 whereas for Q2 FY09 we stand at a forex loss of Rs. 30 crs.

I now handover the presentation to Prasad.

**GV Prasad, Chief Executive Officer**

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Thank you Saumen. Once again I welcome all of you on the call today. I will discuss the key performance highlights for the second quarter and end the call with some comments on the outlook for the second half of this fiscal year.

Now, moving on to Q2 performance, the key highlights are as follows:

- Revenues have grown by 30% in rupee terms. In terms of average rate, dollar growth rate is at 18%.
- Revenues from Global Generics grew by 40% in rupee terms. Dollar growth at average rate is at 27%. For H1 FY09, the revenues grew by 32% in rupee terms.
- Revenues from PSAI grew by 10% in rupee terms. The growth was flat in dollar terms at average rate. However, for H1 FY09, overall revenues grew by 18% in rupee terms.
- During the quarter, we launched 35 generic products worldwide and filed for 24 new products globally.
- Gross Profit increased by 27% over last year. GP% is at 49% as against 50% in Q2 FY08.
  - Gross Profit in the Global generics segment is at 58% as against 59% in Q2 FY08
  - Gross Profit in the PSAI segment is at 29% down from 36% in Q2 FY08
- Operating Income has increased by 78% over last year to Rs 200 crores.
- EBIDTA is at Rs 275 crores as against Rs 220 crores in Q2 FY08.
- SG&A and R&D together have increased by 17% in Q2 FY09 over last year. Sequentially, the expenses have declined by 2%. For H1 FY09,
  - The SG&A ratio to revenue is at 30.5%. This includes some exceptional legal expenses in both the quarters and certain one-time expenses related to the social plan in betapharm.
  - R&D spend is well within our earlier guidance of 7% of revenues.
- Amortization at Rs 47 crores is higher than in Q1. This increase was largely on account of one-time amortization charge related to the early termination of the Salutas contract. Hence from the next quarter onwards, we expect it to be in the range of Rs 40-43 crores.
- Q2 has been a very volatile quarter in terms of currency movements. This is resulted in some forex losses at the subsidiary level
  - Out of the total loss, some part of the loss is a timing issue. We expect to recover it in the subsequent quarters through sales realization.

- PBT is at Rs 152 crores. Effective tax rate for the full year is at 17%. For Q1 FY09, it was at about 14%. For Q2 FY09, the tax rate works out to 20%.
- PAT is at Rs 121 crores. The EPS for the 2<sup>nd</sup> quarter is at Rs 7.2
- Let me now cover the key revenue highlights in each of our important markets
  - In **North America**, revenues grew by 54% in rupee terms. The dollar growth was about 40% at average rate. We are witnessing some pricing pressure in a few key products. This impact is likely to be more than offset by new product launches in the coming quarters. In the US, in 50% of our portfolio of about 40 products, we are among the top 3 generic players. This reflects the strength of our marketing organization in the US and we are confident of increasing our leadership position in many more products.
  - In **Russia**, we continued our growth momentum. Revenue growth was in line with industry growth rate. Revenue grew by 36% in rupee terms. The dollar growth was about 23% at average rate. Out of the 21 brands we sell in this market today, we are in the top 3 position in as many as 12 brands. We are ranked the 7<sup>th</sup> largest branded generic company and we are confident of growing further on our strong position in this market.
  - In **Germany**, revenues grew by 68% in rupee terms. This growth was driven by the launch of an in-licensed vaccine. This is a seasonal product and we are pretty much done with the sales for this product for FY09. During the quarter, on the base portfolio, we grew ahead of the industry growth rate in volume terms. Let me also provide an update on the AOK tender. This tender covers 64 APIs and the submissions are due in the first week of November. The tenders will be effective from March 2009 until February 2011.
  - In **India**, revenues grew by 9%. During the quarter, we forayed into the inhaler segment with the launch of 4 products. This will help us in strengthening our portfolio offering in the respiratory segment. I will talk about the outlook for the second half in the outlook section.
- During the quarter,
  - the net current assets increased by over \$100 million. This was primarily driven by increase in inventories. The inventory build-up is due to stocking up in Germany and preparation of new product launches for several markets. We expect the inventory to normalize in the second half.

- We also incurred a capital expenditure of about \$30 million primarily for expanding capacities for PSAI and Generics and for acquiring land for the proposed SEZ for the PSAI business. This was largely funded through a combination of increase in short-term borrowings and liquidation of short-term investments.
- We ended the quarter with a cash position of \$110 million with \$29 million in short-term investments.
- We expect the working capital position to improve in H2 FY09.
- Overall debt-equity ratio is at 0.45: 1 as of end of September as compared to 0.38: 1 as at end of June.

Now, before we conclude, a few comments on the outlook for the rest of FY09

- Our revenue guidance of 25% growth in rupee term remains unchanged.
  - In the PSAI business, the quarter to quarter fluctuations in growth rate mask the underlying growth momentum. The second half will be driven by the sustained performance of supplies to the generic customers with significant improvement in the contribution from the innovator customer segment.
  - In **India**, the subdued growth rate in first half was a combination of decline in some of the key brands and some temporary supply situation. We have taken the necessary corrective measures and are confident of improving growth rate in the second half.
  - In Germany, while we are driving for volume growth in the base business, we will be able to provide greater clarity on the overall market dynamics and trends post the results of the AOK tender.
- We remain confident of sustaining 50%+ Gross Margin in the second half.
- R&D spend will be within 7% of revenues for the full year.
- We also expect improvements in SG&A spend to improve in H2 FY09. The cost saving measures that we have put in place is yielding results in dollar terms. This will become visible in H2 FY09.
- We look forward to the launch of several new products across key markets in the coming quarters including the launch of sumatriptan AG in the 3<sup>rd</sup> quarter.

With this, we come to the end of our presentation. We thank you all for your time and attention today. Now, we will be happy to take your questions.

**Q&A Session**

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- Arvind: Just wanted a quick update on your capex plan. You incurred capex of over Rs. 257 crores in H1 FY '09. What would be your capex guidance further and could you also give some breakup on where this Rs. 257 crores is spent?
- Satish Reddy: We have spent Rs. 257 crores for the first half. If you see the comparative figures, like last year, we would have spent close to \$140 million, that's total, so the expectations are by the end of the year, it will be under \$100 million, that's the expectation for rest of the year, right! So, for the overall year, it will be less than \$100 million. Now, in terms of the spend that has happened, it has been three to four areas where we have spend. One is expanding capacities both on the formulation side as well as on the PSAI side. The capacities have been expanded; one is in terms of to accommodate obviously the future growth in volumes both in North America as well as in Europe front on the formulation side and also increased volumes especially on the API side because of the new products coming in. So, that's where most of the spend has gone.
- Arvind: Okay. Right. Now, you would likely to maintain this Capex spend for FY'10 also?
- Satish Reddy: It probably will taper down a little bit after that because significant expenditure has already been done in the last year as well as what will be done in this year.
- Arvind: So, when would these Capex plan commercialize or be completed?
- Satish Reddy: Each of these projects is at different points of time. Some have already been completed, like some expansions are on-going at this point of time.
- Arvind: Okay.
- GV Prasad: So, this is not one big project. This is a series of projects in various plants. And they are adding the capacity, adding to compliance and GMP.
- Arvind: And does this include acquisitions also?
- Satish Reddy: On the capital, no. It is outside of that.
- Nimish: My only question is to understand whether the worst in Germany has been over or we are likely to see some more pressures on a slightly longer-term basis, not just in one or two quarter basis?

- Satish Reddy: Okay, what we are indicating in Germany is, you know, the change in the business environment, right. So, because earlier what used to be the influence mostly coming in from the prescribers, the influence has now turned to payers, which is mainly the health insurance funds, popularly known as sick funds. So, when we talk about this AOK tender, AOK is again a group of these insurance companies who are floating the tender and they cover about say 40% of the population right now. So, this is the tender that's coming up. Now, it's again a situation where this tender will probably prompt, you know, the other sick funds also to probably launch tenders, so we will be looking at market turning more into a tender based kind of a market, and that's a possibility that we expect might happen. So, since the business model has changed, our plan is also to align our organization and the structure to be in line with the markets reality once this market fully turns tender. So, we have prepared to that extent and this is what we've been communicating to the investors in the past.
- Nimish: So, what would be the average further price reduction assuming that the entire market will turn tender based?
- Satish Reddy: Again, we will have to wait for the outcome of the first tender, which will give the indication. Obviously prices will reduce. There will be drop in prices. So, we have to wait for the outcome of the first tender once it's complete.
- Nimish: And are we still guiding an EBITDA from Betapharm of almost \$42 million that was something that we had...?
- GV Prasad: So, that was at the beginning of the year without factoring in the tenders when it will come and what will happen with that, but now this being the current reality, although this tender will be applicable only significant portion of it for the next year, going on by the performance of first two quarters, I mean the guidance that we gave in the beginning of the year maybe a little bit difficult to achieve for Germany
- Saumen: Guidance was \$39 million, not \$42 million.
- GV Prasad: \$39 mn, I think, we gave as guidance. \$39 million at the beginning. So that might be a little bit of a stretch.
- Nimish: I see. Okay. And how long are we going to amortize the Betapharm related expenditure in the P&L, you said Rs. 40-43 crores will likely come in the next quarter? How long will it persist?
- Saumen: But Rs. 40-43 crores is overall. Everything doesn't pertain to only Betapharm. It includes even the other acquisitions.



- Nimish: But how will it pan out basically? How big is the betapharm related and when it will be expressed?
- Umang: We expect to amortize betapharm for the next 12 to 15 years depending on the type of intangibles.
- Nimish: For the next 12 to 15 years?
- Umang: Yes
- Rajesh: Good evening. Just one clarification, I think, I missed the first part. What was the average rupee realization for you for the quarter?
- Saumen: That's what I clarified right in the beginning. It is 43.78.
- Rajesh: So, that's on the sales? And what would be the hedging losses for the quarter?
- Saumen: The total as per accounting it is Rs. 30 crores.
- Rajesh: Okay. That is on hedges?
- Saumen: Total Forex loss.
- Rajesh: Yeah. So, that is on hedges?
- Saumen: What do you mean by that? The total Forex loss we are saying is Rs. 30 crores. There are different components to it.
- Rajesh: Okay. Can you break that up?
- GV Prasad: We do both cash-flow hedging as well as receivables hedging.
- Rajesh: Okay.
- Saumen: Now, as I earlier also told, so far as our hedging policy is concerned, we don't go long term. The maximum we hedge will be for 12 to 18 months period and we only hedge upto 25% of the expected dollar export earnings. So, on FY'09 cash flow, we have about \$150 million. Okay and then FY'10, we have another \$120 million, which we have hedged. That is the cash flow hedge, which sits at balance sheet and it gets reevaluated on a mark-to-market right now at about closer to 47. Now, that is one component. Then of course we do the hedging of receivables as and when it is becoming receivables. And that is very close to the current dollar INR kind of scenario. And then of course when all the subsidiaries get consolidated, then all the impact of respective currency and INR respectively all get accounted and finally the total forex loss for the quarter is accounted as Rs. 30 crores out of

which the realized loss will be roughly around Rs. 6 crores. So, the rest Rs. 24 crs. will be more because of translational accounting.

Rajesh: Okay. Good. And what would be the Euro rate that you would have realized for the quarter?

Saumen: If you ask me specifically about Germany, what we have showed the growth, which was 40% in Euro terms. So, the Euro rate, you have the figure straightaway or we will get back to you after getting the exact Euro rate.

Abhay: This is Abhay Shanbhag from Deutsche Bank. A couple of questions, number one, with the rupee depreciation also, we have not seen margins improvement in the India GAAP numbers, any specific reasons for this?

GV Prasad: First of all, I think you should see the IFRS numbers rather than the India GAAP numbers. So that, we are consistent throughout.

Abhay: Okay, but there should have been a margin improvement given the fact that rupee has depreciated significantly?

GV Prasad: Margin is a function of several things. One is the business mix. The lower CPS makes a better affected margin somewhat. Then the other factor which contributed to margin pressure was the pricing environment both in Germany and the US and the third one was rise in interest cost. In that sense, we had some margin pressure in the quarter.

Abhay: But you have been able to shift a lot of products from Germany to India in terms of sourcing. So, even those sort of margins improvements have not really been seen. Do we expect to see an improvement going forward for this India sourcing now?

GV Prasad: We don't share margin at that level from a business component wise but overall margins will increase.

Abhay: Okay. The second thing is in terms of the growth, how much is organic growth and how much was in-organic growth excluding the small acquisitions that were done?

GV Prasad: The acquisitions contributed to a very small percentage of volume.

Satish Reddy: \$15 million came from acquisitions, \$9 mn from Shreveport and \$6 mn from Dow.

- Abhay: Okay. And in terms of capacities, like if the product shifted to India, if you get a big part of the AOK tender, would you have sufficient capacities to cater to them or how would it work out?
- GV Prasad: We will have capacities.
- Abhay: So that is not going to be a constraint for you. I mean you may not have to ramp up Capex or whatever going forward?
- GV Prasad: We have been investing in Capex, so we are always creating Capex ahead of demand and we will continue to do that to meet the demand requirement.
- Chirag: I just wanted to understand how RoW sales get impacted by the currency. Are these done in dollars or are these done in -- for example, your Russia sales, would they be done in Russian currency or dollar currency?
- Umang: The Russia sales would be done in Roubles through our wholly owned subsidiary. The sales there are in Roubles.
- Chirag: Okay. The volume also act specifically in some of the emerging market currencies with the currency depreciation, would you be able to take price hikes or you would have to take some price hikes over a period of time to account for the currency changes.
- Umang: Yes, we can take price hikes and there have been some pricing actions taken by competitors in the Russian market already.
- Chirag: Okay. You know, because in the last couple of weeks a lot of emerging markets currencies have been very weak. So, would you be able to take that sort of price hikes in a very short timeframe?
- GV Prasad: We can't be as dynamic as the currency is. But over time we can certainly improve.
- Chirag: So that will be about what six-eight months or one year?
- GV Prasad: You can't be as specific as that.
- Chirag: Okay sir.
- GV Prasad: It doesn't make sense to revise prices every quarter.
- Chirag: Absolutely. Right.
- GV Prasad: Right. Over a year we will revise the prices amount.

- Rahul: Sir, I did not get on the tax savings front what you said about betapharm, and I believe that you would be sharing on SG&A expenses in the second half, could you please elaborate on that?
- Saumen: Yeah. What we said in the Q2 of FY08 if you recall our PAT was much higher than PBT and that was on account of deferred tax benefit we took due to the change in the Germany tax regulation.
- Saumen: And, so far as SG&A is concerned we hope that our SG&A will improve in H2 as a percentage of sales.
- Tushar: Sir just couple of questions. One thing is I wanted to understand is health insurance the tender when they come out, so what will be the frequency of this tender coming out and how much would be given to a particular company, how much of this tender would be given to a particular company?
- Satish Reddy: Okay. Just the tender is for duration of two years supply.
- Tushar: Okay.
- Satish Reddy: Right. So, what has being announced as of now is an AOK group. You know it's a group of insurance companies, that's called AOK. So, they have announced the tenders. So, that's the current status.
- Tushar: And like for a particular company how much would be the amount of like, for example let say Dr. Reddy's is participating the tender, so how much of that could be achieved by Dr. Reddy's?
- Satish Reddy: No, we can't comment specifically on, you know how much would be restricted and all that.
- Tushar: No is there any restriction on that?
- GV Prasad: Yes. There is no restriction, but it is molecule-by-molecule, region-by-region.
- GV Prasad: Five regions.
- Tushar: Okay. And the seasonal vaccine contributed how much?
- Satish Reddy: We are not sharing that number.
- Satish Reddy: We won't be able to give the specifics of that.
- Tushar: Okay. And so this exceptional legal expense where was that, with respect to.

- Satish Reddy: It was a case for Olanzapine and for the United Kingdom.
- Jesal: What is the volume growth in Russia?
- Nikhil: We don't have the specific numbers as of now Jesal we can get back to you on that.
- Jesal: Okay. Do you have that number for Germany?
- GV Prasad: See, volume growth will be different for each product. Overall how can you comment on volume, total, are you saying how many pills we supplied something like that?
- Jesal: No, I think in your commentary you mentioned that the volume growth in Germany has been higher so Betapharm than for the industry?
- GV Prasad: Right.
- Jesal: So just wanted some idea about that?
- GV Prasad: Yes but that's across products, so for each products is different.
- Jesal: Okay. So, the second thing is that in the PSAI business we have seen total if you exclude the acquisition the overall sales growth has come off versus what we saw in the first quarter, so what is the reason for this?
- GV Prasad: So, in case of this segment there is a CPS business, which is serving innovators. We have a number of biotech customers and they have been affected by the financing turmoil. So, some of them have dropped off. And also larger pharma customers also have been going through some restructuring in terms of operations. So, net result is some of our CPS revenues have been pushed out and that's why we have the growth muted. The generic customers continue to buy on this, that segment is going quite strong.
- Jesal: All right. And just on that topic, are you seeing any movement on that front in Russian market? Are you seeing, I mean, what are you seeing in the market with respect to your customers because of the liquidity situation?
- Satish Reddy: As of now we don't find any alarming situation because obviously we deal with the top distributors and are currently they are okay.
- GV Prasad: And we are quite prudent in terms of our credit limits.
- Jesal: Right, okay. And the other thing was on Perlecan, I think last quarter it was mentioned you will be buying the stake. Has that already happened?

- Satish Reddy: Yes, it has happened.
- Jesal: Okay. And the other thing was on SG&A expenditure you mentioned that as a percentage of revenues it will remain, it will actually be under control, but given that we expect sumatriptan launch, on an absolute basis would you like to share whether it will be in the line with what we have seen in the first half?
- Satish Reddy: You know, SG&A is a combination of so many types of account and some of them will go up. For example, if sales go up, freight has to go up. So at an absolute level, it will move up, but it won't move up in line with the revenues, it will move up at a significantly lower percentage than the revenue growth. So you will see some leverage on the SG&A.
- Jesal: Right. And should the gross margins also not improve with the contribution of Sumatriptan in the second half?
- GV Prasad: At the absolute level it's sure, but as a percentage we have to see the transfer price and so on, because it's generic.
- Jesal: Right. Okay. The constant currency growths, going back to Russia, what is the constant currency growth in Russian markets?
- Satish Reddy: Rouble growth. We'll come back and answer this one...
- GV Prasad: 36% is the rupee growth number, the rouble number we don't have. Actually, the rouble depreciated. It should be higher than I think.
- Satish Reddy: Yes, sir we'll come back to you.
- Jesal Shah: And the last question is on the interest cost. You have seen, I'm not sure about this but I think in the second quarter we have seen greater interest cost than we saw in the first quarter, any particular reason of this, I mean I see that the borrowings have gone up, but...
- Saumen: Yes, the working capital is higher and also Capex is there. So there have been short-term borrowings
- Jesal Shah: Okay. Now what's the breakup of your debt, how much is of your debt is in dollars, Euro and Rupee terms?
- Saumen: See the Betapharm loan is in Euros. And the rest, most of the debts are in rupee.
- Umang: So it's about 200 million Euros is the betapharm debt.
- Jesal Shah: 200 million Euros. And that would be at what rate?

- Umang: That will be at the Euribor + rate, which is prevalent.
- Jesal Shah: It is what was last.
- Saumen: Yeah.
- Jesal Shah: Okay. And the Indian rupee that is what rate?
- Nikhil Shah: Jesal it would be appreciated if you would restrict the number of questions as there are several others lined up.
- Jesal Shah: Sure, sure okay. Fine.
- Prasad: There are different rates even in India.
- Nikhil Shah: So can we request all the participants to restrict their questions to one, so that the others get a chance to ask their questions. Thank you.
- Joost Vos: Thank you. And I was wondering if you could be a bit more specific regarding the measures you are taking to address the shortfall in business developments in your home market in India.
- Satish Reddy: The Indian growth in formulations has shown just 9% growth compared to you know the double-digit growth rates which the market has shown. So if you see the reasons in terms of what happened in the first half and how we are planning to work compared to the second half. The main reason the first half was to do with some of our older products, you know we faced a supply issue because of the raw material on one of the products, which you are seeing imported. So that led to some shortfall in one of our major brands that something we had faced and also the plan for the new products that we were to launch were something behind planning. It got launched later in the second quarter, so we didn't have the full benefit of that. So in the second half, again while we continue to expect market to keep growing in double digit growth rates, we also should be able to improve because, one -some of the products backlog that we had, that's in place and also we had addressed the supply concern and hopefully we should see a better run rate every month that will bring the growth rate back to the market growth rates for India formulation.
- Joost Vos: Are you doing anything to stimulate the effectiveness of the sales force?
- Satish Reddy: See most of these measures had already been done in the sense that you know we have launched more divisions everything was done. The important thing was to have launched the new products on time, which is what I was saying, was that there was a certain lag, so probably we should see the effect of that in the next two quarters.

- Puneet: From the total net forex loss of Rs. 296 million, how much is the translation loss?
- Saumen: Roughly Rs. 23 crores will be translational loss, Rs. 23-24 crores.
- Puneet: Okay. So most of it, it is because of the translational, right?
- Saumen: Yeah.
- Puneet: Okay. Thank you.
- Sameer: Hi. Good evening. Prasad, when you had given the guidance a few months back at that time rupee was much, much stronger at I don't know 41, 42 or not, more like 50. So despite 20% depreciation and you having such a large foreign sales, there is still is no change in your sales guidance. It remains at 25% growth?
- GV Prasad: Yeah. That is true Sameer, it could be higher but we are not guiding higher revenue today. Based on what we know today I think we are just maintaining the guidance.
- Sameer: Okay. And just the second question is on the AOK tenders. If I just think about your current sales in Germany is roughly about give or take \$200 million. How much of it is right now leveraged to AOK?
- GV Prasad: About 45%.
- Sameer: Okay. And just one final question, it's on Imitrex opportunity. Do you think you will have a very low competition market for two months or for six months?
- GV Prasad: Not able to give you clarity on that yet, so we will know at the time of launch.
- Sameer: It would be quite unusual to have it for two months, isn't it? What is that, that's really driving this uncertainty?
- GV Prasad: The uncertainty is the nature of the transactions that have been entered between GSK and others, which we don't have access to today.
- Sameer: Yeah. Okay. Thanks. That's all from my side.
- GV Prasad: Thank you.
- Chirag: Yes. Good evening. Just a question on the VRS at Germany, you have said you've cut down the sales from 250 to 100. Have you been taking the charges on the VRS on the P&L?



- Saumen: Yes and already taken.
- GV Prasad: We call it a social plan that's what I referred to.
- Chirag: Okay. So can you quantify the amount?
- Saumen: We don't give that details of things but whatever social plan, chargers were there it has been already taken to over SG&A in the previous quarter.
- Rajesh: Good evening gentlemen. Referring to the vaccine sales in the Germany which is inlicensed and seasonal, would you be able to give some number in terms of how much were the revenue?
- Saumen: We are not giving. We told earlier also.
- Rajesh: Okay. Sorry, I missed that. Okay. And will that be in next year or sometime you will be again doing it or is it not....?
- Saumen: Yes. We'll do it next year also.
- Rajesh: Okay. Mr. Prasad, USFDA has been apprehend to be a little bit stringent and do you see that impacting more companies in India and process of approval or the time for approval getting delayed, what's your general sense on that and do you think that should delay the approval and impact the companies in general?
- GV Prasad: I don't' see anything different from what FDA has been doing in the past.
- Rajesh: Okay. And in terms of pricing pressure are we still seeing about 5-7% price erosion in the US in general.
- GV Prasad: In general multi-source products continue to be very competitive.
- Rajesh: Okay. And any updates on Prilosec OTC?
- GV Prasad: No, there is nothing to share at this time.
- Krishna: My question is relating to other income according to Indian GAAP. Sir other income has fallen 75% like are you classifying that forex also has been added in other income.
- Saumen: Actually we only refer to now IFRS numbers in this discussion, anything related to IGAAP you can refer to our IR desk later.
- Neelkanth: The working capital ratios seem to have deteriorated substantially I remember from Prasad's comments were some were from inventory

- build up for product launches, about the receivables any specific market whether receivables have gone up?
- Saumen: Receivables seem to be in line.
- Neelkanth: No there was a quarter on quarter increase, which seem to be quite sharp.
- Saumen: From the point of no. of days we are not seeing anything different.
- Neelkanth: Okay. I thought there was increase in the number of days as well.
- Saumen: There has been some increase but not very significant that's what Prasad is saying. Receivables have not been alarming in any specific country anywhere.
- Neelkanth: Okay, okay thanks. And there was a decline in other income even in IFRS. Even on a quarter-on-quarter basis.
- Saumen: Yeah.
- Neelkanth: Any particular reason for that?
- Nikhil: Yeah sequentially if you look at the note we mentioned that you know in the first quarter we've taken some benefit on account of the negative good will related to the Dow acquisitions so sequentially that's the decline, large part of the decline.
- Neelkanth: Okay. Thanks.
- Sonal: Thank you. Just a couple of questions one was I just want to clarify in the IFRS accounts they have two heads, financing income and finance expenses what all does come under each of them I just want to understand?
- Umang: Financing income would include interest income and the expense should include the like and we also classify Forex in these accounts.
- Sonal: Okay. But I mean finance income would include interest income plus Forex gains so it shouldn't be a negative number.
- Umang: that would go to expense so when you net those two off, you get the answer. The Forex loss would go to the expense. And the income gain would be the interest income and then the interest loss the interest that we pay, would be in the financing expense.
- Sonal: No I'm just comparing the number of Forex gain of Rs. 259 million and your finance income of Rs. 93 million so there is a negative number out

- there; I just want to understand what negative heads are there which are reducing this?
- Saumen: No it is put as within bracket.
- Nikhil: Yes, Rs. 93 million is an income.
- Sonal: Right.
- Nikhil: And there is no change in the numbers. Actually if you look at Q2 FY08 the number is Rs. 48 crores and it includes a higher interest income compared to this year plus the forex gain and that has come down and the finance expenses you see that year-on-year there is an increase at that is on account of higher interest expense as-well-as the Forex loss. The parenthesis is more in terms of the format.
- Sonal: Right Sorry I got that, I think it was because of the Q2 FY08 sorry. And if you could just repeat the gross margins for the Global Generics business for this quarter and last year corresponding quarter last year.
- Saumen: No its 58% this quarter, last time it was 59%.
- Joost: I want to just understand exactly what this P&L means. The growth in operating profits at 78% is obviously unsustainable. And so I need to better understand what's in other operating expenses and other operating income please?
- Nikhil: The other operating expenses actually for the quarter is almost nil as against about Rs. 24 million last year.
- Joost: Yeah I have the numbers I would like to know what they represent.
- Umang: In terms of their classification?
- Saumen: Yes, that is what he is asking.
- Umang: Yes. So for example of the sale of scrap would be an income right if you sell the scrap that becomes an income and stuff like that, so its more related to the business, any transaction related to the business comes here. If there are some licenses, which entitles us to get certain Forex related exemptions and we sell those buys or we buys those, those come under expenses and income correspondingly.
- Joost: Okay. So the negative other operating income of Rs. 142 mn?
- Umang: Yes, that's a gain that means there is a gain of roughly Rs. 14 crores.

- Joost: Right and okay. And is that considered to be sustainable?
- Umang: Yeah, it's should be more or less because the quarter on the previous year we had 9 cores.
- Saion: Yeah. Hi, good evening. Prasad, when you give guidance like for the second half we will have a gross margin in an excess of 50%, are you including Sumatriptan in that.
- GV Prasad: Yes, Sumatriptan margins will depend on the transfer price and somewhat as an average they maybe lower but overall I think it will go to more than 50%.
- Saion: Okay, that's right. And what should be the effective tax rate that we should consider for the full year.
- Saumen: We have taken slightly less than 17%, you can take it.
- Saion: Okay. And finally, can you give us an update on the Fondaparinux filing and the opportunity and if you can give some color as to what could be the size of that opportunity for Dr. Reddy's?
- GV Prasad: The product hasn't been filed yet, so we'll talk about it when we file it.
- Saion: Do you, I mean, any timeline that you can suggest for the filing of the product?
- GV Prasad: I think it will be done in the next fiscal year.
- Ankit: Sir, can you give some guidance in the revenues going forward?
- GV Prasad: 25% is the guidance that we gave for the full year.
- Ankit: Okay.
- GV Prasad: And we are maintaining that.
- Ankit: Okay. And the margin is at 50%, okay, sure.
- GV Prasad: 50% plus we said.
- Ankit: Okay, 50% plus. Okay. That's it. Thank you.
- Sameer: Yeah. It is just to follow-up what's the update on biosimilars?
- GV Prasad: The biosimilars specifically, are you talking about the domestic market or international market.

Sameer: Yes the domestic market after Reditux

Satish Reddy: Yeah. After Reditux we are doing clinical trial of one product that should be launched in the next fiscal year. We are hoping that we would launch it in this year, but we are seeing slow down in the patient recruitment. So that would probably spillover to next year and the next year we probably will launch may be two to three products.

Sameer: Okay. And what do we see here in innovative products sales, revenue mix per segment. This is Reditux by any chance.

Satish Reddy: This is basically Promius Pharma dermatology business.

Shantala: Yes. Hi. I have just two questions. I was curious about Perlecan becoming a subsidiary. So how will the development charges be accounted now and under what head?

Satish Reddy: Under R&D.

Shantala: Under R&D. Okay. And what is the status on balaglitazone?

Satish Reddy: There is no change in the status, the product, the clinical trial is continuing, we should have the results on this trial sometime during the middle of next fiscal year.

Nikhil: We thank all the participants for joining us on the call for any further clarifications please feel free to get in touch with IR desk. Thank you.