Dr. Reddy's Laboratories Limited
Q3FY06 Earnings Conference Call
January 24, 2006

Moderator: Good evening ladies and gentlemen. I am Prathibha, the moderator for this conference. Welcome to Dr. Reddy's Laboratories third quarter fiscal 2006 Q&A conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, we will have the question-answer session for participants connected to the SingTel bridge followed by the Q&A session for participants at WebEx International Bridge, and then a Q&A session for participants connected to WebEx India. I would now like to hand over the floor to Mr. Nikhil Shah of Dr. Reddy's Laboratories. Thank you and over to Mr. Shah.

Nikhil : Thank you, Pratibha. A warm welcome to all of you. I am Nikhil Shah, the Investor Relations Officer at Dr. Reddy's. Thank you for joining us on the call today as we discuss Dr. Reddy's financial results for the third quarter of fiscal year 2006. By now, you should have seen the press release as well as the additional financial disclosures, which were released earlier today. The results are also posted on our Web site on the home page under the quick links icon.

To discuss the results, we have on the call today, GV Prasad, our Chief Executive Officer, Satish Reddy, the Chief Operating Officer of the company and Vasudevan, our Chief Financial Officer.

Please note that all discussions and comparisons during the call will be based on USGAAP 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 ensure full disclosure, we are conducting a live web cast of this call and a replay of the call will also be available on our web site soon after the conclusion of the call. Additionally, the transcript of this call will be made available on our web site at www.drreddys.com under the quick links icon.

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Now, the safe harbor statement. I would like to remind you that the discussion and analysis during the duration of the call might include forward-looking statements, as defined in the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially. Such factors include, but are not limited to, changes in local and global economic conditions, our ability to successfully implement our strategy, the market acceptance of and demand for our products, our growth and expansion, technological change and our exposure to market risks. By their nature, these expectations and projections are only estimates and could be materially different from actual results in the future.

And now to get started, let me turn the call over to GV Prasad, our Chief Executive Officer.

GV PRASAD, Chief Executive Officer

Thank you, Nikhil.

Good Evening Ladies and Gentlemen and thank you for joining us on the call today. As you are aware, we released the third quarter results earlier this afternoon and by now, most of you must have read the results and the accompanying notes.

We are pleased to present yet another quarter of revenue growth which reflects the underlying momentum in our core businesses, as we remain focused on steering the business back on the trajectory of revenue growth and profitability.

Revenues for the quarter were at 131 million dollars driven by the growth in the API and branded formulations businesses. We ended the quarter with profit after tax of 14 million dollars compared to about 1 million in the same period last year. This is after including the profit from the sale of our finished dosage manufacturing facility in Goa. I would like to highlight that even after excluding the impact of this one-time income, the profit before tax for the quarter is at 12 million dollars compared to about 0.3 million in the same period last year.

If you recall, earlier in the quarter, we announced the acquisition of Roche's API facility in Mexico for our Custom Pharmaceutical Services business. I am pleased to announce that we have successfully completed the transaction by the end of December and the integration programs are well underway. While we start consolidating the numbers from January 2006, a meaningful accretion to the bottom-line on a full year basis will be realized only from the next fiscal onwards.

Moving on to the performance of individual businesses for the quarter, let me begin with the API business.

The API business grew by about 48 percent on a relatively low base last year driven by growth in all key markets except North America with a corresponding expansion in gross profits as well. Europe grew by 78 percent to 8.5 million dollars during the quarter driven by increase in overall product portfolio as well as customer base. In rest of the world markets, during the quarter we did particularly well in the key markets of Turkey, Israel, Mexico, China and Bangladesh. In fact, if you look at the growth rate for the first nine months, this year has been very good for rest of world markets driven by an interesting mix of market and product opportunities. And on a global basis, it is this combination of a broad product and market portfolio that will drive long-term growth in this business.

Moving on to the Finished Dosage business in Rest of the World, as we discussed earlier, all our key markets are witnessing good growth rates this year, with of course, seasonal demand patterns driving higher growth in certain areas. This has been true particularly of Russia, wherein the third quarter has been exceptionally good driven by higher off take from the trade. In the previous call, we talked about the resurgence of growth in India and we have seen that continue into the third quarter as well. Overall revenues in the third quarter grew by 34 percent to 60 million dollars. The international segment grew by 33 percent led by growth in all regions. The 34 percent growth in India was led by the performance of the top brands and in particular Omez and Nise.

Let me now cover the performance of the Finished Dosage business in Europe,

Revenues from Europe grew by about 10 percent driven by volume growth in key products. The prices for omeprazole and amlodipine are beginning to settle down from the peak levels of the first quarter.

In North America, the revenues declined over last year primarily due to the decline in fluoxetine and citalopram. If you recall, citalopram was launched in the third quarter of last year. However, compared to the immediately preceding quarter, we have done rather well with revenues of about 11 million dollars. This also includes the launch sales of Glimepiride of about 1.5 million dollars. This has been yet another successful launch for Dr. Reddy's as we discussed in the previous call, and 3 months into launch, we are still holding on to our market share. During the quarter, we received approval for 2 products and filed 3 additional ANDAs. With about 51 ANDAs now pending approval with the USFDA, we are looking forward to the launch of several of these products from next fiscal year onwards.

As I mentioned in the previous call, we are more focused than ever on business development initiatives to complement the in-house product development programs and in doing so, driving the overall growth trajectory of the Company. We are getting good traction on our business development initiatives and we believe that these initiatives will create significant value in the years to come.

With this update, I will now ask Vasudevan to discuss the financials in detail.

VS VASUDEVAN, Chief Financial Officer
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Thank you Prasad and a very good afternoon to all of you.

Prasad in his presentation touched upon the key performance highlights of the third quarter. Let me cover some financials in detail.

Let me begin with the gross margins for the quarter.
Driven by the favorable mix of business portfolio, we sustained our gross margins at 51 percent of revenues, despite the current challenges in the Generics business.

Our SG&A expenses for the quarter at about 45 million dollars are 18 percent higher compared to the previous year. This increase compares with the revenue growth of 25 percent for the quarter. The increase in SG&A is largely due to higher selling and marketing.

Moving on to R&D costs, the investments for the quarter are at about 9 percent of revenues compared to 15 percent last year. During the third quarter, we filed 3 ANDAs and based on that we recognized about 2.5 million dollars of income under the ICICI R&D partnership. Excluding the impact of this income, the R&D costs are lower by 1.7 million dollars as compared to last year. The R&D costs are likely to be higher than the average run-rate of expenditure in the fourth quarter due to higher level of product development costs.

Moving down the P&L, we recorded other income of about 13 million dollars compared to 3 million dollars in the same period last year. There are 2 key items I would like to highlight. One, is the profit of about 9 million dollars on the sale of our finished dosage facility at Goa and the other is the net interest income of about 3 million dollars.

The profit before tax is at 20 million dollars as compared to 0.3 million dollars last year. After excluding the profit from the sale of the Goa plant, the profit before tax is significantly higher at about 11 million dollars compared to 0.3 million dollars last year.

With respect to the income taxes, we recorded a tax provision of 6 million dollars. This is primarily on account of the increase in the overall effective tax rate on the cumulative profits for the first nine months.

Finally, net income for the quarter is at 14 million dollars compared to about 1 million dollars in the previous year.

We ended the quarter with a free cash position of about 124 million dollars compared to 161 million dollars as at the end of September despite 57 million dollars for the acquisition of the Roche's API business at its Mexico facility and made net investments in property, plant and equipment of about 12 million dollars.

This concludes my discussion and now over to you Prasad.

G V PRASAD, Chief Executive Officer

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Thank you Vasu.

Summing up our performance for the first nine months, we have achieved revenues of 385 million bringing us in sight of 500 million dollar revenue mark for the full year. The growth in revenues of 14 percent for the first nine months was largely driven by branded formulations, Europe Generics and key markets in the API business. The SG&A base is up by about 13 percent to 128 million dollars. The R&D investments, net of income from ICICI deal, is down by 21 percent to 33 million dollars. As a result of these factors, the profit after tax for the nine months has improved to 42 million dollars as against 17 million dollars last year.

Compared to the growth in revenue and profitability in the first nine months, I would like to highlight that the fourth quarter may not offer same level of performance primarily due to softening of revenues due to seasonality and higher R&D investments as mentioned by Vasu.

Looking ahead, 2006-07 will definitely be an exciting and busy year for Dr. Reddy's. With the integration of the Mexico operations into our CPS business progressing well, over the next 15-18 months, we will remain focused on scaling up this business to the 100 million revenue mark. In the U.S. Generics business, as you are aware, from 2006 onwards, a number of products are going off-patent presenting significant opportunities for growth and we are quite excited about participating in a number of these new product launch opportunities. In the branded formulations business, we expect the growth momentum in key markets to continue. In the API business, we are looking forward to interesting growth opportunities in key markets on the back of a well diversified product and market portfolio. We will be able to share more details on outlook for the next year during the full year earnings call.

To sum up, I would like to repeat what I said in the last call that I am very confident that the outlook for the medium term remains very positive based on all the work done in the last few years which we believe will start delivering growth next year onwards.

This ends my discussion and we now leave the floor open for the Q&A session and will be pleased to answer your queries. Can we have the first question…

Interactive Q&A Session:

Ajay Sharma: Good evening everyone. Couple of questions, first is on Allegra. Prasad, if you could give a timeline on approval and whether you are sure of launching as long as injunction is not given against Teva?

GV Prasad: Yes, we still do not have the approval Ajay Sharma. We have responded to all outstanding queries and we are awaiting approval, so it is a possibility that we could launch after the exclusivity period runs out.

Ajay Sharma: And on Zofran, is there a surety that you still have exclusivity launching December this year?

GV Prasad: No, there is no surety. It is subject to certain outcomes.

Ajay Sharma: Okay, and on the SG&A front, the costs are still high this quarter, but would it be fair to say that more of that is going in the branded formulation side rather than the generics. How is the breakup there? Almost Rs. 200 crores?

GV Prasad: Yes, the increase reflects increase in spending in marketing in branded formulation as well as certain other costs and some one-time costs also there.

Ajay Sharma: Any quantum on that because this number is seeming slightly high?

GV Prasad: It should be around $3 million.

Ajay Sharma: Okay fair enough, and Vasu, if you could just give us the business wise gross margins?

VS Vasudevan: Ajay, looking at the different businesses, API is about 28% gross margins, formulation business overall is around about say 65% margins, then the NA generics is about 36% margins, and in EU we are at about 36% margins. That is the major businesses, which we have.

Ajay Sharma: Okay, and just lastly on the tax rate, what should we model because this quarter was extremely high and last few quarters actually you did not pay much tax?

GV Prasad: Yes, because this quarter had additional other income of sale of Goa plant. You can model it around at 15%.

Ajay Sharma: Okay. Wonderful. Thanks a lot.

Ashwin Agarwal: My congratulations to the Dr. Reddy's management team for good set of numbers and very encouraging remarks by Mr. Prasad. I would like to ask Mr. Prasad that based on significant number of approvals from the next fiscal, do you feel in next 18 months you could reach the critical size for the generic business in the US?

GV Prasad: Next year will be a period of ramp up, and I think if you define critical mass as a size which is enough to absorb all costs and deliver a profit, I think sometime by the end of next year we should be there.

Ashwin Agarwal: Good. Sometime back, we had done a deal with ICICI Venture for funding the generic filings and commercialization of these products, in the phase 1, this deal was up to March 2006, so could we assume that this would be extended going forward?

VS Vasudevan: Phase 1, it is up to March 2006, but the period also can be extended up to June 2006. So, we can extend it if required.

Ashwin Agarwal: Okay, and out of the 56 million, in the phase 1 it was 22.5 million out of that how much have we received till date from ICICI Venture?

VS Vasudevan: We have received all the money, but the recognition has happened up to 10 million till now and the balance to be recognized in the subsequent quarters.

Pawan: Yes hi. First for Mr. Vasudevan, you said that the balance $12 million or $12.5 million from ICICI, could it be recorded over the next two quarters?

VS Vasudevan: Next few quarters that is what I said.

Pawan: Next few quarters?

VS Vasudevan: Because this can be extended up to June 2006 definitely and also beyond that.

Pawan: What I would like to understand is how do you book these revenues, basically how should we model per quarter or you know per annum how much do you book?

VS Vasudevan: Sure, if you see the last few quarters, it has been consistently around about close 2 million each. It is based on number of filings normally.

Pawan: Okay, so basically let us say $2 to 3 million per quarter?

VS Vasudevan: That is right, that would be a normal way of looking at it.

Pawan: If I understand right, it was supposed to be for ANDAs filed in FY2005 and 2006 right?

VS Vasudevan: Right, it was based on a certain product portfolio and assumption was in the two financial years extended up to March 31, 2006, but we also provided certain extension period here.

Pawan: That extension ends in June 2006 and it covers some 30 ANDAs or something, products?

VS Vasudevan: It covers around 30 ANDAs.

Pawan: Yes. Then the second portion of this payment, assume you want it, or whichever ways the combination you get it, and how would that, I mean, I would assume that it would get recorded as the litigation begins right?

VS Vasudevan: Yes. It would be recorded in a normal way. It includes both product development as well as legal expenses, but then we have not yet taken this amount.

Pawan: Will you be taking it because you already have so much of income that has come through other ways?

VS Vasudevan: That is right Pawan, we are still evaluating it.

Pawan: Okay, and second tranche you said also includes product development cost?

VS Vasudevan: Product development and legal expenses both.

Pawan: I would assume the product development is over, right?

VS Vasudevan: It is not yet. It can spill over to certain period in 2007 as I mentioned to you earlier.

Pawan: So basically the second tranche would get booked till something like next four-five years as the litigation continues?

VS Vasudevan: That is right.

Pawan: Okay fine. Second was on your cash, it is $154 million, not $181 as shown because you paid some…. How much is your cash, is it $181 million or is it 124?

VS Vasudevan: Actually the free cash position is $124 million. That is what you have to see. You have to net off the borrowings to arrive at this, and as the total cash position you have to see including the borrowings will be there.

Pawan: Sir after paying for the Roche acquisition?

VS Vasudevan: That is right.

Pawan: Okay. How much of this would be in dollars or say overseas or something?

VS Vasudevan: No most of our balances we hold in rupee deposits.

Pawan: Rupee deposits, okay good. Now this is for Mr. Prasad. My question here would be, Allegra, it can be a big launch next year, I just wanted to clarify whether it is a part of our old agreement with Par Pharmaceuticals in which case you would possibly have to give away a portion of our profits to them?

GV Prasad: No it is not part of the Par agreement.

Pawan: It is not, great. And Roche you are saying is basically going to deliver profits from FY2007?

GV Prasad: Yes.

Pawan: Okay, and there are not going to be any restructuring charges or anything relating to such things next year?

VS Vasudevan: No, it is basically a bolt-on acquisition. There is no restructuring involved.

Pawan: Okay great. And would you like to give any numbers, ballpark, for your US or overall revenue. This year you said $500 million, what would be your aspiration and what do you think is achievable next year including Allegra?

GV Prasad: We do not give guidance on numbers. It is policy of the company not to give forward guidance.

Pawan: Finally, last question on R&D cost. Let us say gross without removing the ICICI income, do you think it is going to decline next year or do you think it will remain at this year's levels?

GV Prasad: It will probably be a little higher than the current year.

Pawan: Little higher than the current year?

GV Prasad: We are increasing product development activity in all our businesses so it is likely to be increased.

Pawan: Okay, and you had this $3 million write off in this quarter SG&A, would you like to say what it was?

GV Prasad: It was one-time charges of some infrastructure, some software, and some fees of consultants.

Rahul Sharma: Congratulations on a good set of numbers sir. Just wanted to ask Mr. Vasudevan, how much tax would we have paid for the sale of the formulation plant? Would it be marginal tax or will it be a long-term tax?

VS Vasudevan: It is a marginal short-term tax.

Rahul Sharma: Okay, that is 33.6% around odd.

VS Vasudevan: That is right.

Visalakshi: Yes. Thank you for taking my question. My question is on Balaglitazone, could you give us the latest status when it will enter phase III, what do we know about it in clinicals so far, is there a possibility that post phase III or during the course of phase III you could out-license, you know, those kind of things?

GV Prasad: Well basically, we have no new information during the quarter except that it has completed additional weeks of studies, carcinogenicity studies. I think we have a few more weeks left and after that we will move the asset forward into clinical development. As you know the asset has completed phase II, it will get into phase III after we present carcinogenicity studies to the FDA and FDA gives it go ahead.

Visalakshi: Any broad timeline as to when it will enter phase III?

GV Prasad: Probably second half of next fiscal if everything goes well or towards later part of the year. It is when the asset moved to clinical development we have no deal to announce of that yet.

Visalakshi: Okay, and also on Perlecan Pharma, by the end of fiscal 2007 what would you expect would be Dr. Reddy's stake build up?

VS Vasudevan: It would be at the same, less than 20% to begin with Visalakshi, and it will move on over a period of 33 months.

Visalakshi: Are there any plans in terms of any kind of listing or some thing for Perlecan Pharma?

GV Prasad: It is early to comment on that Visalakshi.

Visalakshi: Okay, thank you.

Nimesh Mehta: Good evening everybody. I have a couple of questions. First one, if you can elaborate a little more on the Roche acquisition that you have made in terms of the kind of products and the kind of agreements you have with the company for the products. How long are the current agreements applicable? And second, I have a question related to Balaglitazone. What is your comment after Pargluva of Merck and Bristol-Myers was discontinued by those companies because they are also in the same class of PPARs. And finally I would like to know as to how many ANDAs do you expect to be launched in the next fiscal FY07?

GV Prasad: The Roche acquisition brings three lines of business. The first line is APIs - naproxen and naproxen sodium. This is the largest part of the portfolio, and there are multiyear agreements to supply various customers from this plant, principal customers being Roche as well as Bayer, and a large number of licensees of Roche around the world. These agreements are multi-year agreements. Then we have another line of business, intermediates to various innovators, and there are several large pharma customers there. And third one, is the steroids business, which also has a number of global customers. Most of these agreements are long term in nature, multi-year agreements. And coming to your question about Balaglitazone, you raised the concern about Pargluva. Pargluva is a dual activator where as Balaglitazone is not, and the problems that the dual activators have, are not fully seen in the Balaglitazone kind of compounds, hence we remain optimistic about Balaglitazone's prospects in the market place.

Nimesh Mehta: But don't you think that PPAR as a class has been a big concern for the FDA in general?

GV Prasad: You are right in a sense and that is why they have asked us to do carcinogenicity studies for two full years before we go to Phase III, and you know so far we do not have anything to comment on.

Nimesh Mehta: Okay, and on the number of ANDAs that you expect in FY07?

GV Prasad: You asked the number of ANDAs to be filed or the products launched?

Nimesh Mehta: Launched.

GV Prasad: 6 to 8 products in the US market. 8 is the maximum, minimum of 6.

Nimesh Mehta: Minimum of 6, so the 6 are non-Para IV or Para III, and the 2 maybe Para IV?

GV Prasad: No, it is not like that. It depends on approvals as well as litigation outcomes.

Nimesh Mehta: How many maybe Para IV out of these eight?

GV Prasad: I cannot comment on that.

Nimesh Mehta: Okay, and this definitely includes Allegra right?

GV Prasad: Possibly, not definitely because it is subject to regulatory approvals, which we still do not have in hands.

Nimesh Mehta: Okay. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have a question from Mr. Sameer Baisiwala of JM Morgan Stanley.

Sameer Baisiwala: Hi! Good evening everyone. For Zofran exclusivity, what are the key impediments or key variables that you need to overcome to win this exclusivity?

GV Prasad: Basically, I think the exclusivity is driven by the formulation patent, and I think the legal position is not completely clear on this yet.

Sameer Baisiwala: And how would this get clear and what are the timelines?

GV Prasad: I think, the case is being still heard, so in the next six to nine month we should have some clarity.

Sameer Baisiwala: If you were to lose on this court case, even then you think you can get exclusivity?

GV Prasad: That is subject to interpretation.

Sameer Baisiwala: What is your take on this?

GV Prasad: It is a possibility. I cannot say it is definite, but it is possibility.

Sameer Baisiwala: And the second question is related to Allegra, in your assessment what do you expect the competitive landscape to be once this 180-day exclusivity gets over?

GV Prasad: It depends on the approval processes of the other companies. We believe that we maybe ahead of some of them.

Sameer Baisiwala: Okay. That is fine. Thanks.

Ajay Sharma: Just a short query Prasad on this Roche acquisition, you mentioned that you have long-term contracts, rather Roche had long-term contracts. I just want to ask whether on one side you have been challenging big pharma on multiple patent challenges and some of them could be your potential customers through this API plant, is there a dichotomy there or the contracts will still stay?

GV Prasad: Contracts are assigned to Dr. Reddy's and they are enforceable contracts and I think we have a good history of supplying to many of these customers already in some of the other parts of our business, so I do not see any concerns on that account.

Rahul Sharma: Hello Sir. Just wanted to ask you, you have clocked some very good numbers in API as well as the formulations business, do you think we will be able to sustain these type of numbers going ahead in the next quarter and probably in FY07 also?

GV Prasad: Broadly long-term we can sustain them, but quarter to quarter there will be some variation driven by seasonality, launches of products in the API business, so there will be that kind of a variance, but the level of numbers is definitely sustainable.

Rahul Sharma: Okay, can I put it another way, nine months numbers, will be able to sustain the nine months growth numbers which are probably more evened out compared to our quarterly numbers which have been recording 47% growth for the quarter in API business and around 33% in formulations?

GV Prasad: In Q4, we see couple of things, one is the seasonality that is normal and we see it every year. The Q4 revenues in branded formulations do witness some de-growth in the fourth quarter due to seasonality. Second thing is also that we are facing a higher R&D cost in this current quarter because of the bunching up of number of different studies, bio-equivalence studies that we have conducted. So, to that extent I think Q4 will be more subdued.

Rahul Sharma: Okay. Even in domestic formulations business sir?

GV Prasad: Yes, even in domestic we see some seasonality effect in Q4.

Rakesh: Hi, good evening everyone. You said that Roche acquisition is completed in December, and so can I anticipate the numbers would be reflected in the last quarter this fiscal?

GV Prasad: Yes, some portion of it will be reflected in the current quarter.

Jesal Shah: Good evening everybody and congratulations to the management for excellent results. I just had two small questions. One is on this Roche acquisition, can you give us some idea about what kind of margins would we be looking forward to?

GV Prasad: Margins, you should consider the API business kind of margins.

Jesal Shah: At the gross margin level?

GV Prasad: Yes.

Jesal Shah: Okay. And is there some high amount of fixed overheads that you would have in that company?

GV Prasad: Normal overheads, I would not consider them very high.

Jesal Shah: Okay. And the second thing is that if you look at the domestic formulation business has done very well, but that could be partly because the last year third quarter had declined by 5%, so maybe that is one of the reasons why it is doing so well. So what is your sense in terms of what is the underlying growth that you are seeing in some of the key products and how the new products have really contributed to growth and you know, let us say what is the kind of new product introduction in the domestic and the export market also going forward in the branded formulation business, what kind of growth rates do you think can we drive?

GV Prasad: You are partly true in saying that last year there was a dip, but even accounting for that there has been an overall growth. We are seeing double-digit growth in the domestic market now, and the international market is a conglomeration of many markets. We continue to deliver very strong performance in Russia and CIS even at an absolute level, and we see that continuing but not at the same highs that we have seen in this quarter, but we definitely see growth both internationally and in India.

Jesal Shah: Okay, and what about the new product launches, what is your plan in the domestic business as well as in the export business for branded formulations?

GV Prasad: We are seeing an acceleration of our new product launch and the number of launches that we have done is steadily increasing. Though the market is a generic market at the end of the day and the products that we launch are equivalent products, and it takes time for the brands to build up. We really have to see it over a three years horizon and we are doing quite well on that front and we are quite satisfied with our performance on the new product introductions.

Mithun: The question on that Roche acquisition. How is the cost structure of that facility and is there any potential for those products to be manufactured out of India, and what is the kind of scale up potential still at that facility?

GV Prasad: The products definitely would not be shifted to India. They will be operated from that plant, because all these are registered products with the FDA and other regulatory agencies and our customers want our production to be there, so that will not change. However, having said that, we may do some backward integration of some of the starting materials and produce them in India. So, that is the strategy for that. In terms of growth, there are some lines of businesses, which have incremental growth opportunities. We intend to expand the steroids basket aggressively. Also, we intend to pursue the existing customers for expanding the offerings from us, especially the intermediates business. So there is growth there, but it has to be realized through good execution.

Nitin Agarwal: Hi, good evening everyone. I have a small question on the US generic business. You mentioned also that on a sequential basis the performance has improved, although one sees the revenues have gone up from Rs.300 million to about Rs.480 million, you have contributed partly 266 million from the glimepiride launch, just wanted to understand what else has really contributed to the sharp increase in the US revenue because sequentially they have been falling in the previous quarter?

Nikhil Shah: Sequentially, the product that you mentioned, glimepiride, added to the base sequentially. In addition to that, certain other products also we have seen sequential growth like fluoxetine, ciprofloxacin, and even citalopram. So, all of them together have contributed the growth sequentially.

Nitin Agarwal: So this is pretty much a reversal of the earlier trend wherein on a sequential basis these products were falling?

GV Prasad: Well the prices have not dropped, we have increased the market shares.

Nitin Agarwal: Okay. And just one more question on the Roche acquisition, what was the annual revenue for the Roche products when we had acquired the business?

GV Prasad: Could you repeat the question?

Nitin Agarwal: When we acquired the Roche business, what was the annual revenues of the products that where being manufactured in that plant?

GV Prasad: The revenues are not really disclosed because they were part of toll manufacturing agreements between Roche and the site, and the site was really not run as a business, it was run more as a manufacturing organization. So, it is hard to really quantify what the value of the business was.

Ashwin Agarwal: Mr. Prasad could you tell me on the growth outlook for Aurigene, and what kind of customer list we have and what would be the investment going forward because the opportunity is quite big?

GV Prasad: Aurigene has a business model where the business model is partnering with innovator companies and assuming the risk of the work. So, the business model works in a way that Aurigene makes revenue when it finds a molecule with pre-agreed characteristics from its customers, and then there are milestones and then downstream royalties involved, but this involves a collaborative effort with the innovators. Right now, there are no additional investments from Dr. Reddy's going into Aurigene. Aurigene is able to sustain its operations. It is just reaching breakeven this year. I cannot give you the exact numbers of revenue at this time, but also the customer list is confidential and we cannot share the names with you.

Ashwin Agarwal: Is it moving as per your target?

GV Prasad: It is going a little slower than we anticipated, but we are seeing that it is on a good trajectory now.

Ashwin Agarwal: Okay. And primarily Aurigene would make money only on reaching targets and milestones?

GV Prasad: The upsides would come from reaching milestones and targets. Some amount of costs will be covered by ongoing revenues also.

Ashwin Agarwal: Do you believe in the next three to five years this can be exclusively few of the targets go through?

GV Prasad: Aurigene will not have its own discovery program. It will only do partner programs.

Ashwin Agarwal: What if the partner program moves through the phases?

GV Prasad: Yes, it will get milestones as well as downstream revenues when the product is commercialized.

Pawan: This is for Mr. Vasudevan, sorry, but can you please repeat you gross margins for the segmental numbers?

Nikhil Shah: Pawan, this is Nikhil here. The gross margins by business are as follows: API is about 28%, then the branded formulations business is 69%, generic business is about 44%, and then the balance is split up between the smaller businesses.

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Nikhil Shah: We would like to thank all of you for joining us on the call today, and for any further clarifications, please feel free to get in touch with the IR desk either on phone or on E-mail. Thank you.