

“Dr. Reddy’s Q4 FY19 Earnings Conference Call”

May 17, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Dr. Reddy's Q4 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amit Agarwal. Thank you and over to you sir.

Amit Agarwal: Very good morning and Good Evening to all of you and thank you for joining us today for the Dr. Reddy's Earnings Conference Call for the Fourth Quarter and Full Year ended 31st March, 2019. Earlier during the day, we have released our results and the same are also posted on our website. This call is being recorded and the transcript shall be made available on our website soon. All the discussion and analysis of this call will be based on the IFRS consolidated financial statement.

To discuss the business performance and outlook, we have the leadership team of Dr. Reddy's comprising Mr. GV Prasad – our Co-Chairman and CEO; Mr. Erez Israeli – our COO; Mr. Saumen Chakraborty – our CFO; Mr. Anil Namboodiripad who heads the Proprietary Products business and the investor relations team. Please note that today's call is the copy righted material of Dr. Reddy's and cannot be rebroadcasted or attributed in press or media outlets without the company's expressed written consent.

Before I 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. Now, I hand over the call to Mr. GV Prasad. Over to you, sir.

GV Prasad: Thank you, Amit. Greetings to all and thank you for joining us today for the Earnings Call. The fiscal year FY 2019 has been a year of turnaround for the company with growth of 92% in profit and earnings per share. The EBITDA margin improved from 17% in FY18 to 22% in this fiscal year. The free cash flow also improved from Rs. 605 crores to Rs. 2,162 crores in the current year.

In February 2019, we received the much awaited EIR on the Duvvada injectable formulation facility from the US FDA indicating closure of the inspection with the classification under VAI status. We continue to work towards the resolution of the warning letter for the API site at Srikakulam which is known as CTO 6 internally and are hopeful of a positive outcome of this in the near term. Quality has always been an area of priority for the company and will continue to remain so.

During the year, we revamped our strategy and realigned it to focus on 6 chosen segments to drive future growth of the company. We also made some key changes in the leadership team and we now have a very strong team in place to drive the growth for each of the key segments. We also took some meaningful steps towards optimizing our global cost structures and also divested some non-core assets to strengthen the foundations for the long-term sustainability of the organization.

Going forward, key priorities include ensuring market leading performance in each of our chosen 6 spaces and we will also continue the focus of developing high impact products from the proprietary product business and also build a healthy pipeline of biosimilar products for the global markets, while building a self-sustaining business model for each of these businesses. In order to achieve our strategic objectives, we will actively pursue inorganic opportunities to augment organic growth ensuring value creation for our shareholders.

With this, I would like to hand over the call to Saumen to take you through the financials and the highlights of the quarter.

Saumen Chakraborty:

Thank you Prasad. Greetings to everyone. I am pleased to inform that in the current financial year, we have grown well in the revenue, PBT and other key financial metrics such as EBITDA margin, free cash flow generation and net debt position after a decline seen in the last few years.

Let me take you through the key financial highlights for the quarter and FY19. For this section, all the amounts are translated into US dollar at a convenient translation rate of Rs. 69.16 which is the rate as of 29th March 2019.

Consolidated revenues for the quarter are Rs. 4,017 crores that is \$ 581 million and grew 14% year-on-year and 4% on a sequential quarter basis. The current quarter includes an amount of Rs. 181 crores pertaining to the sale of US rights for PP Derma products. Adjusted for this, the revenue grew by 9% year-on-year and is flat sequentially. The year-on-year growth in revenue has been supported by improvement in the base business volumes, new product launches, favorable forex and scale up in new market. The revenues for the financial year 2019 are at Rs. 15,385 crores that is \$2.22 billion and grew by 8%.

Consolidated gross profit margin for the quarter is 52.4% with the sequential quarter decline of 150 basis points. The margins for this quarter were impacted by:

- a. adverse forex rate in quarter 4 as compared to previous quarter;
- b. change in the business mix with the decrease in the contribution from Global Generics and the corresponding increase in the contribution from PSAI;
- c. higher manufacturing overhead due to certain onetime charges; and
- d. an impact related to overhead charge on the carrying value of inventory.

The decline was partially offset by the benefit to the gross margin arising out of sale of the PP Derma brand.

While the movement in gross margin arising out of forex rate fluctuation may continue, we believe that gross margin would improve in subsequent quarters.

Gross margins from Global Generics and PSAI were at 56% and 21% respectively. Gross margin for entire FY19 has been 54.2% against 53.7% in FY18 improving by 50 basis points.

The SG&A spend for the quarter is Rs. 1,238 crores that is \$179 million with a growth of 3% both year-on-year and sequential quarter basis. The SG&A spend for the year is Rs. 4,889 crores and has grown by 4%. The SG&A cost percentage to sales declined from 33% in FY18 to 31.8% in FY19 due to the cost optimization measures taken by us.

R&D spend for the quarter is Rs. 366 crores that is \$53 million and is at 9.1% of the sales for the quarter. The R&D spend is lower by 16% year-on-year and is flat on a sequential quarter basis. The R&D spend for FY19 is Rs. 1,561 crores that is \$226 million as against \$264 million in FY18. We expect that the overall R&D for FY20 would be in the range of \$250 to \$300 million.

Other income includes Rs. 16 crores of profit on sale of intangible assets pertaining to PP Derma brands after adjusting the associated cost. The EBITDA of the quarter is Rs. 882 crores that is \$128 million which is around 22% of the revenue. The EBITDA percentage for the full year has been 22.2% which is an improvement of 520 basis points over FY18. The effective tax rate for the quarter is 25.8% and for the full year is 16.3%. We expect that the ETR would be around 20% to 22% for the next year. EPS for the quarter is Rs. 26.16 and for the full year is Rs. 113.09.

Operating working capital increased during the quarter by around Rs. 373 crores which is \$54 million. The increase is primarily attributable to an increase in receivables and reduction in payables; however, the net working capital days has improved over the last quarter. We invested Rs. 176 crores which is \$25 million towards capital investment in this quarter. The free cash flow generated during this quarter was Rs. 452 crores which is \$65 million. Our net debt to equity ratio has improved further and is at 0.09 as on 31st March, 2019.

Foreign currency cash flow hedges for the next 12 months in the form of derivatives for US dollar are approximately \$325 million, largely hedged around the range of Rs. 70 to Rs. 74.35 to the dollar. In addition, we have balance sheet hedges of \$363 million. We also have foreign currency cash flow hedges of 1,800 million Rubles at the rate of Rs. 1.066 to the Rubles maturing over next 12 months.

With this, I now request Erez to take through the key business highlights.

Erez Israeli:

Thank you Saumen. Greetings to all. I am glad to inform that we concluded financial year 2019 with a good quarter and overall good performance for the full year. The key highlights for the Q4 includes:

- a. relaunch of gSuboxone;
- b. clearance of Duvvada plants FTO 7 & 9;
- c. divestments of PP Derma commercial product; and
- d. continued growth momentum in emerging markets.

The key highlights for full year 19 includes:

- a. strong cash flow generations leading to a decline in a debt to equity ratio to 9%;

- b. Cost optimization and productivity improvement measures taken by the company to respond to the changing dynamics of the generic pharma industry and growing higher than the overall market in India leading to an improvement in the market rank by 3 positions;
- c. We also have strong growths in the emerging markets including our major markets, Russia and China;
- d. successful completion of the various audits conducted by US FDA and other regulatory agencies; and
- e. improvement in the overall supply situation leading to a reduction in the failure to supply claims and to be ready for responding to market needs as and when opportunities play out.

Let me take you through the key highlights across our businesses. Please note that all references to numbers in this section are in the respective local currencies.

The North America Generics revenues are at \$213 million with a sequential growth of 2%. During this quarter, we saw pricing to be much more stable than in the last few quarters. We are pleased with the increase in the launch momentum since January 2019, having launched 7 new products till date including some interesting limited competition products like Daptomycin, Propofol injectable and Testosterone gel. We are actively partnering with our customers to ramp up these launches as we realize the contribution in quarters to come.

In FY20, we expect to launch more than 30 products. We continue to work with the agency to secure the approvals for the scheduled launches including gNuvaring and monetize these assets during the course of the year. As it relates to gCopaxone, we recently received additional queries from the agency and we are in a process of assessing the requirements and the potential timelines of responding. This product continues to remain an exciting pipeline opportunity for us.

Earlier this week, we obtained favorable ruling in the litigation for Esomeprazole/Naproxen products generic version of Vimovo. The appeals court has issued a decision in favor of us reversing the District Court order on the 907 and 285 patents. We are pleased with the decisions and we are evaluating all options with respect to this product while awaiting the issuance of the mandate of the court.

The Europe business recorded sales of €24 million with year-on-year growth of 10%. Like the US market, we also had a busy launch quarter with 6 launches in Germany, 4 in the UK, 2 in France. Continuing on these new launches traction, we expect sustained improvement in the overall performance for the business going forward.

The Emerging market business recorded sales of Rs. 701 crores with a year-on-year growth of 27%, however, sequential decline of 9% due to the seasonal demand patterns. The growth was driven by scale up in new markets, new product launches and improvement in the base business. The Russia business grew 49% year-on-year in constant currency on a relative low base of last year. We remain confident of sustaining strong growth in emerging markets going forward.

India business recorded sales of Rs. 650 crores with year-on-year growth of 6% and a sequential seasonal decline of 4%. As per the secondary sales report by IQVIA what used to be IMS, the business registered a growth of 11.3% against the total market growth of 10.5% for the year ended March, 2019. As a consequence, we also significantly improved our market ranking from 16 to 13 in the most recent 12 months. We will continue our efforts to consistently improve and grow in this market.

The PSAI business revenue are at \$96 million. Our efforts are directed towards improving the supplies and building healthy order book. During the quarter, we launched our advanced B2B customer service portal, XCEED which will increase the operational efficiency in the way of dealing with our partners.

On the R&D front, our key pipeline programs are on track. During this quarter, we filed 10 ANDAs in the US market. As of 31st March, 2019, we have 110 cumulative filings pending for approval with the US FDA including 107 ANDAs and 3 NDAs. During the quarter, we filed 29 DMFs globally including 4 drug master filed for the United States.

On our proprietary products business, we have divested our in-market derma brands to Encore dermatology. This is in line with our previously stated strategy to divest non-core assets and focus on developing high value meaningfully differentiated products while achieving self-sustainability for our R&D model. Preparations are underway to ensure successful launch of our recently approved neurology brand, TOSYMRA. On R&D front, DFD-29, low-dose minocycline and XP-23829 have both successfully completed Phase-2B studies and initial data looks very encouraging. Development on E7777 for CTCL in the US is on track as well and we expect to file the BLA by Q1 FY21.

While I feel quite satisfied with the turnaround in the performance we achieved during the financial year 2019, there is still lot of work to be done to ensure a strong foundation for long-term sustainable growth. Our priorities for FY20 includes:

- a. Resolutions of the warning letter at CTO 6;
- b. Achieving market leading growth from each of our businesses;
- c. Ensuring that each business operates and grow on a self-sustainable basis;
- d. Building a healthy pipeline of products for all markets including differentiated products;
- e. Driving innovation led business model for sustainable growth; and
- f. Continue on our journey of improvement in cost structure.

I am excited with the opportunities we have and the growth possibilities from here on. I now open the floor for questions and answers.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

- Prakash Agarwal:** Sir, first question is on the accounting on recognition of sale of assets under the proprietary product revenue line item, just trying to understand how this happens and does it flow entirely vis-à-vis the contribution from gross margin to EBITDA margin and net gain that you have mentioned is on the other income which is 16 crores if you could reconfirm that?
- MV Narasimham:** All assets which were self-generated, it is not an acquired asset, that is why when we sell this will come under revenue and out of another two assets, we acquired earlier and whatever is on the profit, we accounted as other income.
- Prakash Agarwal:** And R&D has already done now?
- Saumen Chakraborty:** There was a breakup of 181 crores and 16 crores which is separately mentioned, 181 crores for revenues and 16 as other income.
- Prakash Agarwal:** And secondly on the R&D side, if you could give some outlook how would be the run rate in fiscal 20 and 21 and some update on the Nuvaring as well as the biosimilar and Xenoport pipeline please?
- Saumen Chakraborty:** The overall R&D spend, I already mentioned that it should be in the range of \$250 to \$300 million and I will ask Erez to respond on Nuvaring.
- Erez Israeli:** Nuvaring outlook, we don't have new information, we continue to engage with the agency and we hope to launch this product in next coming months. As related to the overall R&D, this will continue to be bread and butter and the way for us to grow and overall, as I mentioned the numbers, we will absolutely, now that we made the R&D organization more efficient and we could handle more products with less cost. We want to continue this plan of productivity to increase the R&D in order to ensure more products and more differentiated products.
- Anil Namboodiripad:** So your question regarding XP23829, we are quite excited with a successful Phase-2B study that was completed for this asset. We will be shortly announcing the key results. We are still in the process of analyzing the data, but the headline data looks quite impressive.
- Prakash Agarwal:** And any timelines when we could finish the full clinical trials and ready to file?
- Anil Namboodiripad:** We are still in planning phase; we will have to go to the FDA and seek their guidance on the path forward.
- Prakash Agarwal:** And last one for Erez, on the Celgene, on the Revlimid product, is there any update we already settled in the Canada?
- Erez Israeli:** We have settled in Canada and it was mentioned in our press release, yes.
- Prakash Agarwal:** And for US, I wanted some update on the US, where are we placed?
- Erez Israeli:** On the US, we continue the legal proceedings.

- Moderator:** Thank you. The next question is from the line of Neha Manpuria from JP Morgan. Please go ahead.
- Neha Manpuria:** Sir, from your opening comment, it seems that there are some one-offs in gross margin. Could you quantify that number please?
- Saumen Chakraborty:** As I said, there are four factors which have pulled down and one factor which has pulled up. The one factor which has pulled up is the sale out of the PP Derma brand and the four factors which have pulled it down, of course, the forex is one, compared to the previous quarter, this quarter, the US dollar, INR conversion rate was lesser and the business mix change which has been there. If the pie of PSAI increase that pulls down the overall gross margin and as we, in case the sales in Global Generics that will get corrected, but the 2 specific onetime thing which is on the higher manufacturing overhead and onetime charge could arise out of some projection of that or some specific write-offs which happen and there is also inventory that we carry for launches in FY20, so related to that there will be overhead charge, so these are the factors which contributed to bring it down.
- Neha Manpuria:** I understand that but sir, could you quantify the one-time impact, what would be the number for that?
- Saumen Chakraborty:** As I was saying that we expect the gross margin would improve, so normally as I told earlier also that our business model is such that we expect the gross margin to be North of 50% but basically it fluctuates between, say, 53 and 56 except for some specific quarters, this quarter where it has been outside that range, but hopefully we can get back to that range that we will give you an indication, of our one-time impact.
- Neha Manpuria:** And second, we acquired injectable portfolio in the last quarter in the US. It seems like a small asset, what is the thought process in terms of growing that and how can we leverage it in the US or outside?
- Erez Israeli:** This portfolio, the intent is to tech transfer it to our facilities or partner's facilities. In some of the products, we may need to do some complementary analysis in order to scale up those products and of course those products to launch in the course of the next coming years.
- Neha Manpuria:** And we see the revenue potential is being significantly higher than the current share?
- Erez Israeli:** Some of these products are very interesting and can be nice addition to our portfolio.
- Moderator:** Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.
- Anubhav Agarwal:** Saumen sir, this question is one-off charges in gross margin, which segment it would have impacted - Global Generics or PSAI?

- Saumen Chakraborty:** It impacted both, there are specific one-time hit in PSAI, related to some specific rejections and all, but there is also hit in Global Generics and that why the gross margin of both, it stood at 56 and 21% respectively, which is lower than the expected. PSAI, we can deliver much better gross margin.
- Anubhav Agarwal:** Just to get the quantum, would you call it some 50 crores kind of hit or more than 50 crore kind of hit?
- Saumen Chakraborty:** We do not get into that specific, I have given you broad idea that what will be the normal fluctuation we should be accustomed to in terms of the gross margin and whatever extend this one-time has hit this specific quarter, we hope the next quarter will sort of come back.
- Anubhav Agarwal:** Second question was on the R&D, which you mentioned for \$250 to \$300 million. Roughly, how much would be spend out of that on the proprietary product?
- Saumen Chakraborty:** Proprietary products, we will continue to focus on R&D for some interesting pipeline that Anil has been specifically thinking about, but on an overall basis, the R&D spend will be lower in proprietary product segment compared to previous year, but the percentage wise spend on biosimilar as well as on Global Generics, outside even North America because we have been also developing products for various other markets including China, so this will get distributed to various things, but as Erez alluded that we are seeing good improvement in R&D productivity, so we would like to focus on it as a lever for growth for future.
- Anubhav Agarwal:** Just one clarity, we are starting the clinicals of Rituximab as well, is that the reason good part of the delta coming from there, prop is going down and we are at least talking about \$50 to \$60 million higher spend next year?
- Saumen Chakraborty:** So, this could be one of the reasons.
- Erez Israeli:** The other reasons will come that we will develop more products for more markets, so absolutely we want to continue to invest in R&D. As we can grow the business, we will have relevant portion to reinvest in the business and especially in R&D.
- Moderator:** Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.
- Surya Patra:** Just wanted to have a sense, one specific product that Propofol, what could be if you have already launched that, do you see this as kind of important product for FY20?
- Erez Israeli:** It is a nice product, we like it.
- Surya Patra:** But do you see that money making in that product is a possibility because it seems very commoditized product and seems that the penetration is very low there?

Amit Agarwal: Yes, this product is a very interesting product. There is only Fresenius controlling basically most of the market share at present, so as of now, the contribution is very low, but this is going to increase and in FY20, definitely it will be a meaningful product and it will be a product which will be there for long term because it is a very different nature of product, it will be a very good product.

Surya Patra: And even on the China strategy, can you just, you have already indicated that is kind of bigger opportunity area going ahead, so what initiative that you have seen and what potential that you are witnessing and on the earning potential front or the earning efficiency front relating to China if you can add something?

Erez Israeli: As we discussed in previous meetings and also in the recent conferences, China is an important space for us and we see a major opportunity in China. As China opened up especially with the changes of regulations to the kind of products in terms of quality and cost effective that we can bring to China. We identified 70 products that from our US portfolio that meets those requirements and we potentially can obtain in the next coming years GEA status for them. This is a very big opportunity for us as this is significantly higher number than what we have today in China. We are leveraging the fact that we have already 20 years in China and naturally, as a foreign company, we never left China, so we do have management, we do have operations, manufacturing site, we do have sales people, we do have regulatory people and we can work either with our JV partner on those relevant TAs or with other partners. What we do now is that we have both submitting the products which already put to be submitted and working on biostudies for those that requires local biostudy. We are upgrading our teams in China and we are also going to build a new plant, very close to the current plant that we have in Kunshan, so overall very exciting opportunities. We do not share a guidance in future numbers, but it should be significantly bigger than what we have today.

Surya Patra: Just on the pricing, how it should be different compared to market like US?

Erez Israeli: Today's China system is different than the US and today to sell in China, one needs to go from hospital to hospital and to get the buy in of both physicians and the hospital management for that specific products. When you have GEA, you can compete on the slot of the innovator in the formulary of the hospital, this is a big advantage. This until recently was only the domain of the innovators of the product. Now, the generics with the GEA mechanism can compete on that slot. Long term, China may change business model, in some places may go through tenders and we are building ourselves also for these scenarios and when it will come, we will be ready for it.

Surya Patra: And can you just talk about something on the Suboxone penetration front, it is when I think relatively below to the expectations?

Erez Israeli: I will answer this Suboxone indeed. When we launched Suboxone, we launched with 4 other players plus the level of conversion initially between the innovator and the generics were less than which was anticipated by our customers. Having said that we do see that changing and we do see picking up, so on the whole we believe the Suboxone is a very nice asset for us, even if

you see in the beginning there was some slow uptake because of level of conversions from the innovator to the generics.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda: With regard to your generics Plavix approval in China, could you share some impacts as to how many other players are there marketing a generic version there?

Erez Israeli: I don't recall the number of players for this specific product, but it is a unique asset and this is quite a big molecule and we waited long time for the approval of this molecule because naturally when we submitted it, the CFDA was under different structure and resources. This is a very very nice product for Chinese market.

Vishal Manchanda: There are generic players already selected but it is still a very large opportunity?

Erez Israeli: To the best of my knowledge, there are generic players, I am not aware of their number.

Vishal Manchanda: Just on DFN02, if you could talk about how is the initial response? And has that been launched?

Anil Namboodiripad: DFN02 or Tosymra which is its brand name, we are still in preparation for launch. We expect to launch the asset in the second quarter, all preparations are ongoing. The prelaunch activities indicate that there is quite a bit of receptivity to the product and we are quite optimistic of its success in the market.

Vishal Manchanda: And if you could share on Zenavod, which has been outlicensed Galderma are there any developments?

Anil Namboodiripad: That is a question that basically Galderma is in the process of finalizing its strategy for this class of assets. That is all we know at this point.

Moderator: Thank you. The next question is from the line of Sameer Baisiwala from Morgan Stanley. Please go ahead.

Sameer Baisiwala: Question on Nuvaring, is there any pending query from FDA and any change to our earlier guidance of first half this fiscal launch?

Erez Israeli: There are no specific queries and we did not get formal queries from the FDA, so in that respect, there were no changes. As we indicated in some of the calls, one of the goal days was April and the second with the approval is August, so we are still within this timeline that we discuss, so if it will go to August, it will be only for the second half of the fiscal that we are still between the same goal dates as we discussed last time.

- Sameer Baisiwala:** And for Copaxone, I know you touched upon it, but is this a major CRL or the queries quite onerous or also earlier guidance of second half this fiscal launch, do you think that could be changed to that?
- Erez Israeli:** We do need to do some experiments in order to answer it, it is going to probably delay us by few months.
- Saumen Chakraborty:** But quite unlikely, of the launch in FY20.
- Sameer Baisiwala:** And just one final question from my side, for Duvvada, non-onco block, has FDA inspected that one?
- GV Prasad:** They are coming soon.
- Moderator:** Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.
- Shyam Srinivasan:** My first one is on SG&A. I think we have seen good progress from a reduction perspective. Just doing the numbers on the full year, it is about 32% or so and your press release also talks about continued cost optimization, can you just walk us through what can happen in fiscal 20 that will further kind of keep this cost line capped?
- Erez Israeli:** We will continue to focus on cost. That will be this year. Most of the cost initiatives will be less on the SG&A and more on the operation, on the cost of goods, but absolutely, we are going to contain the SG&A as well. In certain areas, in the market that we are planning to grow especially the branded, we expect the sales and marketing to grow, but less than the sales will grow which means that we are planning to increase the profit.
- Saumen Chakraborty:** So the productivity, we want to improve.
- Shyam Srinivasan:** So Erez, doesn't it mean that the investments for many of these markets are all kind of done and we are just now, it is a ramp up in the sales part that is going to kick in?
- Saumen Chakraborty:** But we are continuing to focus on new markets in emerging market, so there will be a leverage.
- Erez Israeli:** So it is a combination of new products and new brands plus leverage. Overall, we are going to increase the productivity of our sales and marketing. We are also getting better in that and we are improving our capabilities of both branding and sales and sale cost effectiveness, quite a interesting projects that are running out to continue to improve the efficiency of S&M.
- Shyam Srinivasan:** Just to see whether you could quantify, do you think another 100 bps is possible or you would stop shy of giving us any specific guidance on how you...?

Saumen Chakraborty: We don't give financial guidance; we can only give directional statement. So directionally we will keep on improving the productivity, directionally we hope to grow in different businesses and different segments, but we cannot give specific guidance.

Shyam Srinivasan: And my second question and last question is on CTO 6, so what needs to be done now to get the warning letter resolved? Can you share any timelines that we can actually see this remediation come from?

Erez Israeli: Sure, so in the last naturally it seems we got the warnings and till now and especially in the last 12 months, we have shared a lot of information with the FDA is that were required out of past activities, pass out of spec and investigations that were needed for that plant. We provided all of this information and we continued to answer queries to the FDA. We are going to meet the FDA soon and to see if there are further requirements or we are ready to go. We should expect re-inspection of that plant before approval and this should be very soon.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: Sir, on the India please, how do you see the business shaping up in coming years and is there any kind of a vision that you envisage in this business?

Erez Israeli: India is a very important market for us and we are absolutely going to invest in this business and we see ourselves going forward as one of the leaders in India. In India, we want to do a few things, first to excel in what to do leveraging our brand and by enhancing the brands we have and launching new brands and number two, this is a market that we will pursue if we can and if possible inorganic moves and number three, this is the place we would thrive a new business models and innovation. For us, India is very important market, we are excited about this market and its opportunities, specially its size and the fact that this is a market that continue to grow in double digit at least the recent numbers showing that and may be in the future in high single digit. We are extremely excited about it.

Ashish Thavkar: To achieve your vision, you feel you need to hire more MRs as such or the current product basket is good enough?

Erez Israeli: We can increase the MR, but we need to increase the business more and we are increasing the S&M, so we are going to grow and we are going also to grow our productivity, so we want to obtain more rupees out of the spend that we have.

Ashish Thavkar: Next question is on the US market. All this while, we have been talking about the Nuvaring and Suboxone, but apart from this big size product opportunities, how do you see the US market panning down in terms of say, are there any interesting opportunities from the 20 plus launches that you are guiding for?

Erez Israeli: We guided 30 plus, not 20 plus and it was in my script and I believe that this should be very exciting year for the US market as we did not launch that many products in previous years, also

the fact that what we see that the prices relatively moderated down. We believe that the new product launches and the uptake of what we launched since November will create a growth in the United States.

Ashish Thavkar: Last question if I may, on Revlimid for the US markets, if you could help us know when is the next trial date?

Erez Israeli: We are still in proceeding. We are not discussing specific details on that proceedings.

Moderator: Thank you. The next question is from the line of Vincent Leonardo from CHR. Please go ahead.

Vincent Leonardo: Actually my question has already been asked by the previous person who asked about the generic Copaxone, so you guys are thinking of potentially not meeting launch this year and more or less likely in FY20?

Saumen Chakraborty: FY20 is this financial year, so more likely it will be FY21.

Moderator: Thank you. The next question is from the line of Anubhav Agarwal from Credit Suisse. Please go ahead.

Anubhav Agarwal: The question was on the India business. In the second half this year, our growth has been 8%. Can you just call out some reasons, may be higher than the market little bit, but it is not what you expect from India? What is happening for our portfolio in general? 8% is not what we build in models going forward for the company?

Erez Israeli: I don't know what is the build in model, India business is growing nicely and some of the products are seasonal and normally the third quarter is higher than the first quarter in the case of the India business and so we are actually very happy with the performance of the Indian people.

Anubhav Agarwal: Just one question on the China market, so when do we see, do you expect you to file some of this oncology injectables by end of this calendar year or they may spell to the next year? When do we see the filings happening?

Erez Israeli: The filing is happening as we speak and for the next 3 to 4 years, some of the products are ready to be filed because all the relevant R&D and regulatory process were done and some would require biostudy and some would require production by the relevant oncology plant in China and those products it will take time.

Anubhav Agarwal: Have we filed some oncology injectables so far?

Erez Israeli: We filed product in China and we are filing as we speak.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

- Prakash Agarwal:** Question on once we start or we already started the monetization of Suboxone and probably this year we have Nuvaring too and these were acquired assets, just wanted to understand the amortization impact on the P&L?
- Saumen Chakraborty:** That can only be evaluated when we launch a product. Nuvaring, we will have to wait and see and at that time what is the price and what is the likelihood of any competitor coming in and how this thing is going to be modelled, so we cannot answer at this point of time.
- Prakash Agarwal:** Suboxone sir?
- Saumen Chakraborty:** Suboxone, as you see that we have already launched twice in the market and there has been some revenue and profit coming out of that and also there is a bond which is there in the court and of course, it is a legal process to go through that and we will be making some claims, so we will have to wait and watch.
- Prakash Agarwal:** And secondly sir, on Duvvada we have received approvals, I mean approval of the site but when do we start seeing the approvals of the ANDAs?
- Erez Israeli:** You started to see, for example, Daptomycin that we recently received the approval.
- Amit Agarwal:** Prakash, of the 30 which you are saying the deal which we have done, so those will need tech transfer, so that will take some time.
- Saumen Chakraborty:** No, he is asking for 30 launches for next year.
- Erez Israeli:** Some of them will come from the FTO 7, 9 absolutely.
- Prakash Agarwal:** And lastly on Pegfilgrastim if you could just give an update?
- Erez Israeli:** We are waiting for Fresenius, from our side, everything is ready to go and naturally it is all in Fresenius' hand and they need to determine the time that they want to launch the product and for us it is primarily that once they will launch we will get our share out of product.
- Prakash Agarwal:** So what kind of approval time frame you are looking at?
- Erez Israeli:** I don't know totally.
- Prakash Agarwal:** I understand that but I mean filing and approval time frame very broadly.
- GV Prasad:** Filing should be in months and within a year we should get approval.
- Moderator:** Thank you. The next question is from Nimesh Mehta from Research Delta. Please go ahead.
- Nimesh Mehta:** I just wanted to know now that we have Duvvada cleared, how many high-value injectable approvals we are expecting for the next 12 to 18 months, other than the one that we already have,

do we have a bunch of that might come in the next 12 to 18 months, some ballpark would be helpful?

GV Prasad: Some of the products have been site transferred and we are getting approvals from the transferred site and we will take them back to Duvvada as we continue to process but there are significant number of approvals pending and as the inspection happens they will be cleared, we cannot give you an exact number.

Nimesh Mehta: But is it fair to say that there might be 3 to 4 ones which will be complex injectables?

GV Prasad: Yes, between the FTO 7 & 9, between the two sites, onco and non-onco sites, certainly 3 to 4.

Nimesh Mehta: Which can come in the next 12 to 18 months right?

GV Prasad: Yes.

Moderator: Thank you. The next question is from Saion Mukherjee from Nomura. Please go ahead.

Saion Mukherjee: Sir, you have been working on this Octopus acquisition on long acting injectables, have you made any progress on filing any of those products?

GV Prasad: We filed some products, but some of the products are still under development. Some of these are very long development cycles as well as clinical development, some products have been filed and some are in development. They also work on range of different products.

Saion Mukherjee: Has there any timeline you have like when you think this can potentially be filed?

GV Prasad: When we file, we will let you know. We don't discuss. If there is a litigation, we will disclose, most of these will have litigation.

Saion Mukherjee: And sir, just one last question from my side on the Revlimid settlement in Canada, can you just give us the size of the opportunity and what is the timeline roughly when you expect launch of the product?

Erez Israeli: So what we disclosed in the press release is that we settled and we got one time of \$50 million as part of that settlement in order to settle all the claims, but we are not going to disclose the date of launch.

Moderator: Thank you. The next question is from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Just one question, on the PSAI segment, we are seeing the growth coming through after some time and in the past the segment has been quite volatile in terms of the growth that it has delivered, so how would you see the trajectory of the PSAI segment going forward in terms of

growth especially now that China basically has supply constraint and what is the capacity situation there and how would you augment the capacity?

Erez Israeli: We see PSAI as one of key space for us and one of the six spaces that we discussed them in our strategy guidance. This is a very important space for us and we do see also a tailwind that out of China as there is a bigger demand as a result of the changes in China. We are growing partially as part of that and partially because we do focus on need to give better service. We believe that this business will be much bigger in the future. We are now ramping it up and developing more drug master file, submitting more, giving better service. As I mentioned we recently launched service programs and overall we believe that we will come back to where we have been many years ago. It was a legacy business for us and we are planning to come back through leadership position in API.

GV Prasad: Capacity is not a constraint for us here.

Aditya Khemka: Can I have some flavor on the capacity utilization levels as of now?

GV Prasad: That is a difficult question to answer because we are in the process of network rationalization. During the year, we sold one facility, we are modernizing our facility, but overall capacity is not the limiting factor for us today.

Erez Israeli: We have capacity for growth and at the same time we are growing the business, we are also focusing on cost, then cost optimization and naturally we will match whatever the market need in the right cost.

Aditya Khemka: The second question I wanted to ask was on capex capital expenditure, what is the budget for next year and where is it going to be spent off?

Saumen Chakraborty: There will be lesser need than the current year, so this current year we have spent around 700 crores, so this could be the outer limit, it could be lower than that.

Aditya Khemka: And where is that money being spend on Saumen?

Saumen Chakraborty: Across various kinds of facilities, some will be on routine capex, some will be very specific one which we have started and we need to complete during this year.

Aditya Khemka: How much is our maintenance capex?

Saumen Chakraborty: It will be, may be broadly 15% to 20% of this will be routine capex and remaining will be.....

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Amit Agarwal for closing comments.

Amit Agarwal: Thank you everyone for joining us today for the earnings call. In case of any further queries, please reach out to the investor relations team. Thank you.