Management Discussion

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Welcome to Quarter 2 FY '27 Earnings Call of Dr. Reddy's Laboratories Limited. We appreciate your continued interest in our company. I'm Aishwarya Sitharam, Head of Investor Relations at Dr. Reddy's. Joining us today are members of the leadership team, Mr. Erez Israeli, our Chief Executive Officer; and Mr. M.V. Narasimham, who we call MVN, our Chief Financial Officer. Our quarterly financial results have been published earlier today and are available on our website for your reference. We will start today's call with MVN providing an overview of our financial performance for the quarter. Following that, Erez will share his insights on key business highlights as well as the company's strategic outlook. We will then open the floor for questions. All commentary and analysis during this call are based on our IFRS consolidated financial statements. Please note that certain non-GAAP financial measures may also be discussed. Reconciliations to the corresponding GAAP measures are included in our press release. I would like to remind everyone that the safe harbor provisions outlined in today's press release apply to all forward-looking statements made during this call. Before we proceed, I would like to call out a few housekeeping points. [Operator Instructions]. This session is being recorded, and both the audio and the transcript will be made available on our website. Please note that this call is the proprietary material of Dr. Reddy's Laboratories Limited and may not be rebroadcasted or quoted in any media or public forum without prior written consent from the company. With that, let me hand the call over to MVN to present the financial highlights for the quarter. Over to you, MVN.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Thank you, Aishwarya. Greetings, everyone, and thank you for being with us today. It is my pleasure to take you through our financial performance for the second quarter of FY '27. The business reported a 1.5% year-over-year decline in revenue, while EBITDA margin was at 20.6% for the quarter. Excluding lenalidomide in North America, the underlying base business maintained its growth momentum, delivering double-digit growth. All financial figures in this section are translated into U.S. dollars using a convenience translation rate of INR 95.83, the exchange rate prevailing as of September 30, 2026. Consolidated revenue stood at INR 8,671 crores, which is $905 million, a decline of 1.5% on year-over-year and a growth of 7.4% on a sequential basis. Strong underlying base business performance across key businesses, except Europe and API, driven by new product launches and favorable forex movements helped mitigate the impact of lower lenalidomide sales. Consolidated gross profit margin was at 52.1%, an increase of 562 basis points sequentially and a decrease of 254 basis points year-over-year. The year-over-year decline in margins during the quarter was largely on account of lower lenalidomide sales. As a reminder, margins in the preceding quarter were adversely impacted by a provision for inventory and other costs associated with the semaglutide API-related challenges. The reported gross margin for Q2 FY '27 was 56.2% for Global Generics and 11.8% for PSAI. The SG&A spend was at INR 2,808 crores, an increase of 6% year-over-year and a decline of 3% sequentially, accounting for 32% of revenue. The year-over-year increase was primarily driven by higher personnel costs following annual increments, adverse forex movement as well as elevated freight costs due to supply chain disruptions arising from the Middle East crisis. The R&D spend was at INR 524 crores, down by 16% year-over-year and 9% sequentially, accounting for 6% of revenues and primarily reflecting lower development expenditure in the generics as compared to the previous year. The EBITDA, including other income, stood at INR 1,783 crores, which is $186 million, a decrease of 614 basis points

year-over-year and an increase of 806 basis points sequentially, reflecting a margin of 20.6% of the revenues for the quarter. The profit before tax was at INR 1,228 crores, that is $128 million, representing a margin of 14.2%. Effective tax rate for the quarter was at 25.6% compared to 22.2% in the corresponding period last year. The ATR for the quarter was higher, primarily due to an adverse jurisdictional mix for the quarter in comparison to the same period in the previous year. Profit after tax attributable to equity holders of the parent for the quarter stood at INR 925 crores, which is $97 million, a margin of 10.7% on revenues. Diluted EPS for the quarter is at INR 11.1. Operating working capital as of 30, September 2026 was INR 14,650 crores, which is $1.53 billion, an increase of INR 297 crores over 30, June 2026. Cash capex, cash outflow for the quarter stood at INR 186 crores, which is $19 million. Cash flow during the quarter was INR 171 crores, which is $18 million. As of 30, September, we have a net cash surplus of INR 2,502 crores, which is $261 million. Foreign currency cash flow hedges executed through derivative instruments during the period are $229 million hedged using a combination of forwards and risk reversal option, scheduled to mature by March 2027, these contracts are hedged at a rate of INR 93.032, INR 95.54 per U.S. dollar. With this, I now request Erez to take us through the key business highlights.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Thank you, MVN. Good day, and thank you for your continued interest in our company. I apologize for my voice. I hope it will stay consistent. We remain consistent with -- in our strategic priorities of delivering double-digit growth across geographies and sustainable profitability, through strong execution in our core businesses, progress on key assets, continued productivity improvement and disciplined investment in future growth drivers, both organic as well as inorganic. During the quarter, the underlying business that is excluding lenalidomide in North America continued to perform well, delivering a double-digit growth overall as well as across North America, emerging markets and India. We achieved an EBITDA margin of 20.6%, supported by the strength of our base business and our continued efforts to drive productivity. Subject to successful validation, we expect to relaunch semaglutide both directly as well as to our partners in November 2026, consistent with the time lines communicated earlier. We also remain focused on advancing abatacept and other complex generics as they move through the regulatory review process in the coming quarters. Let me now walk you through some of the key highlights of the quarter. We partnered with Takeda to bring India first approved dengue vaccine, we call it Qdenga to the private markets in India in the first half of 2027. We expand our collaboration with Gilead Sciences to enable access to investigational once-yearly lenacapavir for HIV prevention in 120 countries. In collaboration with the GARDP Foundation, we secured approval for zoliflodacin, an antibiotic use in gonorrhea treatment in Thailand within six months of U.S. FDA approval. We received U.S. FDA approval for rituximab biosimilar, which will be commercialized in the U.S. through our partners, Fresenius Kabi. We launched nivolumab in India, marking our entry into biosimilar immuno-oncology in India. Both rituximab and nivolumab are developed and manufactured in-house. Generic semaglutide is now approved in 10 countries across Latin America, Africa, the Middle East as well, of course, as Canada and India. Our CDMO business under Origin Pharmaceutical Services generated revenues over $100 million in the last 12 months. We continue to receive global recognition for commitment to sustainability. Finance Asia Awards, a silver medal in the Best Large Cap Company in India category as Asia Best Companies 2026, reflecting strong endorsement by the Asian investor and analyst community. We improved our CRISIL ESG score to 73 out of 100 from 66, becoming the only pharmaceutical company in the leadership category. Let me take you through the key business highlights for the quarter. Please note that all financial figures mentioned are reported in the respective local currencies. Our North

America generic business reported revenue of $264 million for the quarter, accounting for 29% of our overall revenues and reflecting a decline of 29% year-on-year and a growth of 12% sequentially. The decline is attributed to lenalidomide sales versus last year.The underlying base business, excluding lenalidomide, continued to deliver strong double-digit growth, driven by new product launches. During the quarter, we launched 6 new products, including first-to-market launch of Sugammadex injection. We remain on track to launch additional products, including complex injectable during the year. Our branded franchise comprising India, emerging markets and Consumer Health business in nicotine replacement therapy or NRT together accounted for 53% of our overall revenue and continue to provide a strong foundation for stable margin for the company. Our emerging market business recorded revenue of INR 2,059 crores, accounting for 25% of our overall revenue and reflecting a robust growth of 24% year-over-year and 12% Q-on-Q. New product launches across markets, including acquisition, coupled with favorable currency movement drove growth during the quarter. We introduced 27 new products across countries in Q2 FY '27. Our India business revenues were INR 1,851 crores, accounting for 21% of overall revenues and consistently delivering a robust double-digit year-on-year growth of 17% and 8% sequentially. Growth was driven by recent launches, including acquired brands, along with price increases and higher volumes. According to IQVIA September 2026 data, our IPM rank improved to 8 for the quarter and 9 for the year. We continue to outperform the Indian pharmaceutical market IPM, with moving quarterly total growth of 21% versus 14.7% for IPM and moving annual total MAT growth of 19.4% versus 13.2% for the market. Four of our brands feature in IPM top 50 new launches, and we launched four new brands during the quarter. Our European business which includes NRT posted revenue of EUR 127 million for the quarter, accounting for 16% of our overall revenues. Revenues declined 6% year-over-year and 3% sequentially on account of price erosion in generic, partially offset by revenues from new product launches. Growth was further affected by the continued impact of the operating model changes post NRT integration as highlighted last quarter. During the quarter, we launched six new generic products across markets. Our PSAI business reported revenue of $88 million, accounting for 10% of the overall revenues. Revenue decline of 19% year-over-year and 3% sequentially, primarily on account of lower API volume uptick. Our CDMO business delivered double-digit growth this quarter during the quarter. We filed 28 drug master files globally. We remain committed to improving the health of our business and to delivering consistent growth and sustainable margins. As we continue to strengthen our core business, we are also investing in a future growth driver across peptides, biosimilar, consumer health and innovation. Our focus remains on progressing key products such as semaglutide and abatacept, driving operational efficiency and pursuing targeted inorganic opportunities to support long-term growth and shareholder value. With that, I invite your questions as we move into the Q&A session.

Questions & Answers

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thank you very much, Eres. We will now begin the question- and- answer session. [Operator Instructions] . The first question is from the line of Neha Manpuria from Bank of America. Neha, please go ahead.

Neha Manpuria - Analyst, Bank of America
Yes, hi, thanks for taking my question. My first question is on Sema. I think you mentioned that we are on track to resume Sema in early November. Erez, I think you had given us a volume guidance

last time when we had announced the disruption in supplies. Two questions on Sema. First, is the resumption happening with our own API? Is it the same partner that we're using? And second, given what has happened in Canada with the one player which is already there, how confident are we of meeting the guidance that we've given for Sema?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
So I'm very confident. The confidence is based on orders that we already have. And we just obviously need to supply. The main issue was with our ability to scale up the API this problem is solved, and we shipped all the necessary API to our partner to do. We still need to have the results of the validation. So this is still pending, but I'm confident that it will be successful. And then we are ready to launch. Most of the quantities will go to Canada and some of the quantities will go to Latin America, primarily to Latin America and a little bit to Africa.

Neha Manpuria - Analyst, Bank of America
Understood. And my second question is on the gross margin improvement that we've seen in the quarter. MVN, if you could give us some color in terms of what's driving this gross margin improvement? And is it fair to assume that as Sema comes through, this is the bottom in terms of gross margin and gross margin should only improve from here?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes. Neha, just as we guided earlier, we want to be gross margin in the range of 50% to 55%. That's why this quarter, what we see 52.1%. This improvement from last quarter to even this quarter is a combination of the new products and the business mix. That's where I think we will be in this zone, certainly in the coming quarters as well.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
And your assumption is correct.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
It will only go better from here.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes.

Neha Manpuria - Analyst, Bank of America
Understood. Thank you so much.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Neha. The next question is from the line of Dr. Kunal Dhamesha from Macquarie. Kunal, please go ahead.

Kunal Dhamesha - Analyst, Macquarie
Hi, thank you for taking my question. First one on the one cash flow line item. On other assets and liabilities, there is a large change that has happened around INR 1,370 crores. So MVN, could you please help us what is driving that?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
So this is a one where this SSA claim what we had, I think there were the payments have happened this quarter. That is one change and then other balances due to various operations, but that is the biggest one. If you remember, $50 million what we have provided in the Q4 during this H1.

Kunal Dhamesha - Analyst, Macquarie
Okay, so the cash flow has happened now. Okay.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes.

Kunal Dhamesha - Analyst, Macquarie
Great. Thank you. And just continuing on the gross margin front, or the other way to look at is there's a sequential improvement in U.S. revenue, a meaningful improvement, right? So would you be able to split between the new product launches driving that and the volume improvement in existing product or pricing improvement? How should we think of that delta in U.S. business? And the similar driver and approximate split for the gross margin improvement on a Q-o-Q basis?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
So certainly, like new products, what we have launched in bosutinib, sugammadex, I think in the U.S., I think these products as compared to our company average gross margins, I think, certainly is like on the higher side as well as what we have launched the nivolumab. And the business mix also has contributed to this margin.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
So Kunal, the main driver is actually the business mix because now the businesses that are relatively with high profitability, meaning India, EM and the NRT, all of them are much more profitable than our average went to 53%. So this is one contribution. The second is what MVN said that the U.S. is more profitable because of the contribution of the new product. The combination of both gave that. And the last, we did not increase the expenses. The expenses are essentially flat this quarter. And so if you grow the sales double digit and you don't increase the cost is obviously lead to this margin improvement.

Kunal Dhamesha - Analyst, Macquarie
Sure. And lastly from my side, would we have also seen some drag from the raw material price increase? And given the -- I think the oil prices are high and the chemical prices are also high. And then how should we look at that cost line item from the, let's say, second half perspective? Do you think that quarter two is when we have seen most of the increase or quarter three, quarter four, we can see some drag?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
So here, just I think this is because of the war, I can say, increases what we have seen in the KSMs. And then the second one is solvents and the third is like logistics freight outwards, what we are exporting metal from India to all other -- all countries. So we have seen the increase -- on the three fronts. And then overall, it has an impact close to 100 basis points on the EBITDA. So we believe that's already part of the gross margins. And then we believe, I think this trend will continue for Q3 and Q4 as well.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
I don't anticipate additional growth unless, of course, there will be as much as we can predict additional geopolitical issues. But with our limited understanding, if it will stay the way it is now, we are in the same place.

Kunal Dhamesha - Analyst, Macquarie
Sure. I have more questions. I'll join back the queue. Thank you and all the best.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Thank you.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Kunal. The next question is from the line of Damayanti Kerai from HSBC. Damayanti, please go ahead.

Damayanti Kerai - Analyst, HSBC
Yes, hi, good evening everyone. Erez, a clarification on semaglutide resumption. So you mentioned you have already started supply of API to your partner, fill and finish partner. However, what is remaining is the validation. So I actually am not clear. I thought like validation will be done and then you will supply to your fill and finish partner. So can you just help us understand this?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Sure. So you do validation as we had to come back and basically tweak the process on the API, then you do validation of the API. And then when you ship it to our partner, then you know and you need now to do validation on the drug product using that API. This is a process that takes about three weeks. And so far, give or take the -- all the activities are on time. And that's why it took us to November from the first place. So, so far, it is an hydration, but you have basically validation in each stage of the scale-up of the process.

Damayanti Kerai - Analyst, HSBC
Sure. That's helpful. And other point on semaglutide, you mentioned so far, it's approved in around 10 countries. So didn't you secure for more approvals in other markets while you are trying to resolve the API issue? Or you want to go after you resume the supplies in the existing or approved market? So how do you plan -- because you mentioned you'll be targeting to launch in more than 70 countries across the world, right?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Yes. The right number is now 89 markets. But it just that all the markets that the process started, we did not stop. The scale-up issue has nothing to do with the regulatory process, and we don't require any amendment to the file or anything like that. So everything continued. And all the approval we got was in according to the process in each one of those respective countries, and this will continue. Some of the approval in some other markets got delayed because of the scale-up as we needed to ship them samples of the products and those samples will be now sent to these places. So we will continue with the process for all the other markets as well.

Damayanti Kerai - Analyst, HSBC
Sure. And my second question is on your NRT, the nicotine business. So flat performance for last two quarters. And you mentioned it was due to change in the business model. So when we should

see recovery in NRT business?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
So last year or last quarter, if you recall, we had to carve out from Haleon. So it means that Haleon used to do it, and we gave them certain margins for handling the business. The new business model, it means that now we are selling it either by ourselves or through distributors. And -- but the payment to Haleon is not there anymore. It means normally, in this respect, less sales and -- but more profit. So what I can say about it, it's the comparison year-over-year will be until we will finish the year. I think we have two more quarters like that. In general, the business is doing well. It will grow in the same way that you see until now, somewhere between high single digit to maybe even double digit. And the profitability is way above the expectations that we put in the business model. So we are very, very pleased with this one.

Damayanti Kerai - Analyst, HSBC
Sure. Thank you. I'll get back in the queue for more questions.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Damayanti. The next question is from the line of Tausif Shaikh from BNP Paribas. Tausif, please go ahead.

Tausif Shaikh - Analyst, BNP Paribas Exane
Good evening and thanks for the opportunity. First question on abatacept, while the goal date is set for December, is there any incremental update that you would like to share with us, especially from the Bachupally plant?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Yes. So the plant went for the inspection. We are still waiting for the IR to come. And the goal date is indeed December 22, and we are hoping for an approval. It's obviously in the end of the U.S. FDA.

Tausif Shaikh - Analyst, BNP Paribas Exane
Okay. That's helpful. On the R&D spend, which seems lower compared to Y-o-Y and Q-on-Q, while you have mentioned is on account of lower spend on global generics. How do you see this trend going ahead? Shall we assume this is a new base now?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
So this quarter's R&D is low, absolutely, you are right. And then coming quarters, what we believe our R&D is going to be in the range of 7% to 8%.

Tausif Shaikh - Analyst, BNP Paribas Exane
Okay, that's helpful. I will get back in the queue.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Tausif. The next question is from the line of Madhav Marda from Millennium. Madhav, please go ahead.

Madhav Marda - Analyst, Millennium
Hi, good evening. Just one question. If I understood right, during the initial remarks, you mentioned about like one or few complex injectable launches in the second half of the year. Could you just clarify like if you could share some more views on that product? Do I hear that right that we have

some complex injectable lined up, near term?

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Well, we'll talk about it more when we get closer towards the end of the year. But yes, we do have a few interesting products in our pipeline. We've always spoken about that. We've done a bunch of launches. We want to continue with that momentum.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Yes. But I'm kind of careful to promise because I got burned in the past when dealing with the approval of complex generics. And some of you who have been with us for many, many years, and you remember that. But let's say, we have some exciting products ahead.

Madhav Marda - Analyst, Millennium
I remember, in 2022, we had done the analyst meet in Bombay. I think that time we had shared names of a few products. Is it from that list itself? Like, you have disclosed four, five products in the pipeline?

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
You will know by the end of the year.

Madhav Marda - Analyst, Millennium
Okay. Okay, fine. But it's a meaningful product for the U.S. market. Is that right?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
These are meaningful products, yes.

Madhav Marda - Analyst, Millennium
Okay, got it. All right, thank you.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Madhav. The next question is from the line of Foram Parekh f rom Bank of Baroda Capital, please go ahead.

Forum Parikh - Analyst, Bank of Baroda Capital
Thank you for the opportunity. My first question is on Europe business ex of NRT. So the growth seems to be declining there, probably because of Germany. So how should we look at it? I mean, NRT is also now flattish because of the change in business model and ex of NRT also it's declining, which is taking a toll on the Europe business. So can we expect it to go back to double digit?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Yes, it will. First of all, the NRT will grow. The NRT is growing and obviously, that part will positively impact also the relevant part of Europe. Absolutely, you are correct about the performance of this quarter. The next quarter should be better. Let's say, the NRT, I'm expecting again, either high single-digit growth or even double depends on certain scenarios. As for Europe, I'm expecting growth, but it will not be significant growth this year.

Forum Parikh - Analyst, Bank of Baroda Capital
Sure. And on ex of NRT, how should we look at growth ramping up?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Ex-NRT Europe, you mean?

Forum Parikh - Analyst, Bank of Baroda Capital
Yes.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
It should grow probably single digit this year.

Forum Parikh - Analyst, Bank of Baroda Capital
Okay. That's helpful. My second question is on SG&A cost. Here also the contribution has come lower to 26% versus earlier trend of 29%. So would this be the new sustainable number to look at?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes. So overall, I just want to clarify, our SG&A percentage is 32%. And just as here, we've also spoken our cost productivity, what we are doing is now that is coming visible. So even coming quarters also, at least in this year coming -- you may not see like a significant changes to this number. It's going to be at this level, around here and there, I think small changes.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
I just want to reiterate to take the opportunity. We believe that the level that we agree and we discuss it all the time actually with all of you is sustainable. We think that the 20%-plus, we're actually aiming for the famous 25%, but we are always discussing EBITDA. And this will continue, and we are planning to consistently continue to deliver this number.

Forum Parikh - Analyst, Bank of Baroda Capital
Sure. Thank you. And last question is on the India business. So we have done good and IPM growth also is inching up in double digit and is likely to sustain at current levels for the remaining year. So can we expect current run rate of 17% to be the growth rate for the year?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
It's going obviously to stay high level of double digit. It may be a little bit less or a little bit more, but we are in the right neighborhood.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Also, we want to be. Our growth want to be like higher than the market growth by a few basis points.

Forum Parikh - Analyst, Bank of Baroda Capital
Sure, that's helpful. Thank you.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Forum. [Operator Instructions]. The next question is from the line of Prakhar Nema, who's from BNY Mellon. Prakhar, please go ahead.

Prakhar Nema - Analyst, BNY Mellon
Firstly, thanks for the question -- thanks for taking these questions. So what is the company's strategy for expanding the biosimilar business through -- within research and development and partnership? So could you please shed some light on this?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Sure. We are going after both. So we're naturally leveraging our Bachupally facilities as well as additional facilities that we will build in the future. And abatacept is going to be the first meaningful product to be launched out of our own facilities. Rituximab is obviously one of them. Abatacept is going to be obviously meaningful and more products to follow. In parallel to that, we are talking to partners around the world, and we are trying to license product in which we don't have in our own pipeline, in our own internal pipelines. And we have it whether globally or for specific regions. So both will continue.

Prakhar Nema - Analyst, BNY Mellon
Perfect. Thanks for. And one more question. So what the revenue we can expect for the next three to four years?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
It depends on the success of abatacept, obviously, in the next coming years because this is going to be a significant product for that. And abatacept should be in the hundreds. So you should expect hundreds of millions of dollars.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
So followed by abatacept, then we have a pembro and daratumumab also will come in the next within five years.

Prakhar Nema - Analyst, BNY Mellon
Okay, okay. Thank you so much. Thanks for taking my questions.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Prakhar. The next question is from the line of Abdul Qadir Puranwala from ICICI Securities. Abdul, please go ahead. Abdul, you've been unmuted.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Just move on, then we will come back.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Abdul, we'll come back to you. The next question is from the line of Vishal Manchanda from Systematix . Vishal, please go ahead.

Vishal Manchanda - Analyst, Systematix Group
Hi, good evening, and thanks for the opportunity. On rituximab, would it be possible for you to share where are we in terms of market share in Europe?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
We have a single digit of market share in Europe.

Vishal Manchanda - Analyst, Systematix Group
Low single digit or high single digit?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Low single digit.

Vishal Manchanda - Analyst, Systematix Group
Any time lines and any guidance as to where we can be, maybe a year or two years down the line? And do we have the capacities there?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
So indeed, we were constrained by capacity. We should be better once we will be able to add more qualified capacity for that. And at the same time, we are talking about a product with a high level of competition. So I would not expect a significant change because of that.

Vishal Manchanda - Analyst, Systematix Group
Okay. And second, you -- your JV entity in China got a first generic approval for a drug called icotinib in July. Is that contribution part of your numbers in the current quarter? Or will this come in subsequent quarters?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
So we are recording our share of the -- so we are not recording the sales. We are recording our share of the profit of that. So it's part of the profit and our share in that, which is 51%.

Vishal Manchanda - Analyst, Systematix Group
So this would be part of the JV -- share of profits from JV?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Correct, correct.

Vishal Manchanda - Analyst, Systematix Group
So have we kind of started selling this? And is this now -- have we ramped up to our full potential? And are we the only generic here or there are other generics that have entered?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
To the best of my knowledge, we started. I don't recall about the competition, so.

Vishal Manchanda - Analyst, Systematix Group
Okay. And just one final one on abatacept. Once we get the approval, how long can we take to get listed on the formularies? Will it be like six months or we can start getting market share quickly post approval?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
So the ramp-up, like you said correctly, will be after six months after we'll get all the codes and all the registration. But we can initially sales smaller quantities from day one. So expect that the launch will be upon approval, but the ramp-up will be correctly after six months.

Vishal Manchanda - Analyst, Systematix Group
Got it. If I can ask one more on sema, if you can guide on where generics are in terms of market share in Canada as on date?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
As of date, there is only one generic in Canada.

Vishal Manchanda - Analyst, Systematix Group
Right.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
I don't remember their market share. But let's say that the Canadian market will have to get us big.

Vishal Manchanda - Analyst, Systematix Group
Got it. Thank you.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Vishal. The next question is from the line of Surya Patra from PhillipCapital . Surya, please go ahead. Surya, you've been unmuted. Okay, while Surya joins back in, the next question can be from the line of Dr. Bino Pathiparampil from Elara Capital. Bino, please go ahead.

Bino Pathiparampil - Analyst, Elara Capital
Hi, good evening to all of you and congratulations on a great set of numbers. A couple of clarifications. I see from the footnotes this bendamustine deal and some milestones in Russia, which is part of revenue. Where is it included in the revenue breakup? Is it part of U.S. revenue and Russia revenue, respectively?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
It is in the sales line.

Bino Pathiparampil - Analyst, Elara Capital
And bendamustine is in the U.S. revenue and the milestones are in the Russia revenue. Am I right?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
That milestone of Russia is part of the EM.

Bino Pathiparampil - Analyst, Elara Capital
Okay. Second, what is this bendamustine deal about? What was the logic behind sending the product rights, selling the product rights?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Which one?

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Bendamustine licensing.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes. That's where I think here, we thought a partner we'll get overall as a deal, I think we get a better economics. That's why we have taken -- given the rights to the partner.

Bino Pathiparampil - Analyst, Elara Capital
Got it. In the quarter, I see that the finance income is significantly lower versus INR 290 crores last quarter and kind of similar numbers in previous quarters. This quarter is only about INR 90 crores. So is there any reason why the finance income is so much lower?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
So here, what the exposure we have on the balance sheet is the forex, especially the movements from June to September of the ruble spot rate is, I think, significant variance. I think that has given this P&L debit, I think, in this quarter as compared to the Q1.

Bino Pathiparampil - Analyst, Elara Capital
Sorry, in this quarter, it is lower compared to Q1.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes, yes.

Bino Pathiparampil - Analyst, Elara Capital
Okay. Got it. I'm sorry, one last question. What will be the capex for the full-year? Because the first half I have seen is much lower than your typical run rate.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Earlier, we have guided around INR 1,800 crores. My view, it could be a little lower. But definitely, I expect around INR 1,600 crores to INR 1,700 crores.

Bino Pathiparampil - Analyst, Elara Capital
Thank you. I'll join back the queue.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Bino. The next question is from the line of Amlan Das from JPMorgan. Amlan, please go ahead.

Amlan Jyoti Das - Analyst, JPMorgan
Sorry. I just wanted one clarification on the abatacept scenario. So apart from the IV indication, we also heard from the previous calls that for the subcutaneous indication, you expect an approval in the U.S. in 4Q FY '28 and in the non-U.S. markets for both indications in 1Q FY '28. So just -- so do the times remain consistent? Or has there been any change in this?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Consistent. We stay consistent with that, yes.

Amlan Jyoti Das - Analyst, JPMorgan
Okay. Thank you. Thanks for that. And the non-U.S. market is also roughly $1 billion for the reference drug. So how do you expect the ramp-up in the non-U.S. markets for abatacept?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
We believe that the European market is a very important market for this. It's -- and it's going to be launched a little bit after the United States, but Europe -- the Europe is -- we believe, is a significant market.

Amlan Jyoti Das - Analyst, JPMorgan
Okay. And lastly, for these markets, the manufacturing would be done in Bachupally itself, right?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Correct.

Amlan Jyoti Das - Analyst, JPMorgan
Okay. Thank you. Thanks for the opportunity.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Amlan. The next question is from the line of Dhara Ganatra from UTI Pension Funds. Dhara, please go ahead.

Dhara Ganatra - Analyst, UTI Pension Funds
Am I audible?

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Yes, we can hear you.

Dhara Ganatra - Analyst, UTI Pension Funds
Thank you so much for taking my question. So I had one question largely from the India market perspective. What we have seen in the last two years is that IPM growth has been in single digit -- high single digits. And in the last six-odd months or last three-odd months, what we are seeing that the growth has accelerated versus the last two years, the growth was more driven by pricing. This time around, there's a lot more volume growth. So both for Dr. Reddy and for the industry, what do you think is changing? And what is the outlook for the second half of the year and going forward?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
One thing that changed significantly is obviously the launch of semaglutide and the GLP-1 product. This is a significant addition both for volumes. The second one is that you have more new products like us, innovative products that are coming to the market. So in general, this is the main contribution. I believe that if you take the GLP-1, you'll get either close to the single digit or too high. I did not do the math, but this is the main contribution, I believe.

Dhara Ganatra - Analyst, UTI Pension Funds
Okay. So you don't see any smaller players vacating the market or slowdown in trade generics or that sort of that would be driving the IPM growth?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
I don't -- the main -- at least the way I see also that the main growth for us is in the places in which you have those utmost demands. So for us, it's primarily the innovation. The branded generic, those that we are investing behind are doing well. The rest are doing like in the market, like normally, mostly driven by prices.

Dhara Ganatra - Analyst, UTI Pension Funds
Sure, thank you.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Dhara. We're going to try and see if Abdul can join us now. Abdul, can you please unmute yourself? Abdul, you've been unmuted. Okay, looks like there's continued technical issues at his end. The next question will be from the line of Vivek Agarwal from Citi. Vivek, please go ahead.

Vivek Agrawal - Analyst, Citi
Thanks, Aishwarya. My question is on abatacept. So just trying to understand what can be the fair market share of your biosimilar in the U.S., let's say, once the product is there across the formularies, even one year down the line because we have seen in a lot of biosimilars that sometimes the market share remain range bound to around 10%, 15% and some of the products get market share as high as around 50%, 60% kind of stuff. So, what is your assessment based on the

opportunity itself, competitive dynamics as well as your capacity and capability at what kind of the market share is a fair market share for this product for you?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Thank you. At least at the moment, assuming that we'll get approval, we are alone. So in terms of competitiveness, it's us and the innovator. It's a medical benefit product in the United States. So the sensitivity to the price and to market share is not as big as in pharmacy benefit. I know you know that well. So, we -- I believe that a fair market share can be any number of 15% to 25% depends, of course, on the success of the launch. We need also to add that once the subcu will come to the market is obviously going to add to the market share, which will come later. We are talking about February, 28. So this is give or take. So it's primarily about the sweet spot between market share and prices.

Vivek Agrawal - Analyst, Citi
Just a clarification, this 15%, 25% is the entire abatacept market you are talking about or only the IV version?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Initially, it will be on the IV. I mean it could be that there will be some movement on that, but we will start with the IV and the subcu will come in February, 28.

Vivek Agrawal - Analyst, Citi
Understood. And in terms of confidence on approval based on your discussion with the FDA, so would you like to assign any kind of probability how comfortable you are based on your discussion with the agency, type of queries, et cetera. So what kind of the chances that you have in terms of approval? Or is there any possibility of getting CRL in December and the approval may get delayed by a few months, et cetera?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
You know, I'm 33 years in this business. And I had my share scars from these predictions. We feel good about the product. We feel good about the inspection. We feel good about the correspondence with the U.S. FDA. We want and be preparing to launch in December. If you ask me, is there a chance that we'll get a CRL, there is a chance. I don't want to -- obviously, none of us want it, but there is a chance.

Vivek Agrawal - Analyst, Citi
Understood. The second question is on the U.S. generic business trajectory, right? On a quarter-on-quarter, we have seen improvement, right? And a part of the improvement is also being driven by some of the products which may face competition in the incremental quarters, Q2 and Q3. So just want to get your understanding how we should look at the U.S. numbers -- the North American numbers on quarter-on-quarter. Is there any possibility of dip in 3Q, 4Q or you can maintain the current trajectory even going forward in the next -- in the second half?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
So for the U.S., we have -- one we discussed is abatacept, the other is obviously semaglutide that are going -- it's not the U.S., but it will going to be including in the North America sales and also those complex generics that are on paper. So, if we will have that or the combination of that, we will actually grow versus the current state and for sure, sustain it. Yes, I believe that the numbers are

sustainable. Naturally, we have bosutinib. Bosutinib, obviously, after the six months that SKU, we have one SKU that has -- that will obviously go down. I don't think it will impact significantly so that we will be able to absorb without a problem. So overall, I'm optimistic, but it obviously depends on our ability to be successful with those products that I mentioned.

Vivek Agrawal - Analyst, Citi
Understood. Just last question on margins because the reason I also asked the question on the U.S. business sustainability is that in the coming quarter, there -- you are also indicating alluding that the R&D spend is also expected to go up, right? So I'm just wondering if R&D spend goes up, some of these products like bosutinib comes down. And in this quarter, you also had some impact of milestone incomes, et cetera. So just trying to understand from where you are getting confidence that you will be able to maintain close to around 20% kind of margins in the second half.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
First, we know our numbers. But -- so I'm sharing that confidence again. We will reach that and it will even go higher. The reason that we feel it, first of all, is the growth that we see in EM in India, with the consumer health as well as the United States. Second is the way we control the expenses. So indeed, R&D, we will have more, but we will have on the other expenses less, and we are planning to continue to do that. So it's primarily the mix, the growth. And obviously, the continued launch of new products. So for me, by the way, 20% or 21% is not impressive. We always said that we want 25%. We are recovering from lenalidomide, and that's what we are going to be. But I said it also before, now I think people believe me, we will have 20%-plus. And if we will launch successfully the way I believe semaglutide, it will be more -- it will be 21%-plus.

Vivek Agrawal - Analyst, Citi
Thanks. Thanks, Erez. Congratulations for the great set of numbers and best of luck. Thanks.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Thank you so much.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Vivek. The next question is from the line of Tushar Manudhane from Motilal Oswal. Tushar, please go ahead.

Tushar Manudhane - Analyst, Motilal Oswal
Yes, thanks for the opportunity. Just one question from my side. What kind of price erosion we have seen in case of Sugammadex post launch?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
I don't recall the price erosion.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Very low price, I think whatever we have initial contracts signed, I think it's getting continued. I think the product launch.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Probably versus the innovator, I don't remember.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Maybe I can get back to you on this later, Tushar.

Tushar Manudhane - Analyst, Motilal Oswal
Sure, that's it from me. Thanks, thanks for the opportunity.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
The next question is , I think there's a follow-on question from Kunal. So, next question is from the line of Dr. Kunal Dhamesha.

Kunal Dhamesha - Analyst, Macquarie
Hey, hi, thanks for the follow-up. Just one on the abatacept subcu filing. Where are we in that process?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
We are supposed to submit it, if I remember correctly in February.

Kunal Dhamesha - Analyst, Macquarie
February of 2027?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
2027, if I remember correctly. Aishwarya will see if I may -- will keep on it.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes. February and March, let's say, I think around same period. Yes. In that quarter, we are going to submit.

Kunal Dhamesha - Analyst, Macquarie
Sure, sure. And another one on the complex generics launch that we are basically looking forward in the second half. Are these or that product particularly is -- we are dependent on the IP outcome on those launches? Or is it more just the approvals?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Approvals, FDA approval.

Kunal Dhamesha - Analyst, Macquarie
And are these Para IV filings?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Launch and approval situation for now.

Kunal Dhamesha - Analyst, Macquarie
Sure, sure, sure. And lastly, on abatacept, you suggested that the ramp-up will happen a couple of quarters later as we get included in the formulary. But just one, when we launch, what kind of infra -- commercial infra do we require, especially for the U.S. market? And when do we start the build-out of that?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
So we already -- we started to do it already three years ago. So the main framework of the sales and marketing in North America is already there. We will hire a couple of more sales team. So the team

that will cover certain geographies. This is still pending, but the lion's share of the team is there.

Kunal Dhamesha - Analyst, Macquarie
Sure. So there's not much incremental cost related to that?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
No, not much.

Kunal Dhamesha - Analyst, Macquarie
Perfect. Thank you and all the best.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Kunal. The next question is from the line of Aman Vij from Astute Investment Management. Aman, please go ahead.

Aman Vij - Analyst, Astute Investment Management
Yes, good afternoon, team. Am I audible?

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Yes, yes.

Aman Vij - Analyst, Astute Investment Management
Yes. My questions are on the semaglutide side. First, given we expect the validation to be completed by November, where are we in terms of launches in other big markets like Brazil and Turkey in terms of approval time lines and launch time lines, any rough estimate?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Brazil, likely in Q4, the beginning of Q4. And the rest of the markets, so we will -- most of the -- we are going to launch in all the smaller markets either in the end of Q3 or at the beginning of Q4. And this is primarily the time lines from the time that we finish validation and we start to sell batch by batch. Some of it may come to the market in Q3, some will come in January. So all of it will be in that time frame, some in December, some in January.

Aman Vij - Analyst, Astute Investment Management
Sure. That helps. Second question is, you've talked about we are still adhering to our guidance of 6 million to 7 million devices this year. What are the latest estimates, say, for next one year to two years, FY '28 and '29? Where do you see this number?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
It obviously depends on the success of this 6 million to 7 million. But like I mentioned in the past, the run rate of 12 million to 15 million pens that we discussed in the past is still my estimate. But obviously, it can fluctuate as we understand better the markets once we'll get all the approvals, and we'll understand the competition in each one of the markets. So right now, take it as a very tentative number. But this is what we are preparing for the, let's say, the 12 months from April.

Aman Vij - Analyst, Astute Investment Management
You had mentioned this number last time also. I just wanted to understand, are you more positive on the number or slightly negative, that point?

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
I did not change my attitude. It's because we need to see the success of the market share that we will take as well as the success and the market share of our partners. So I don't have any additional information. Right now, it's the same, consistent with what we discussed in the past.

Aman Vij - Analyst, Astute Investment Management
Thank you for answering the question.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Aman. In the interest of time, we will take one last question from the line of Saion Mukherjee from Nomura. Saion, please go ahead.

Saion Mukherjee - Analyst, Nomura Securities
Yes, thanks for taking my question. Just one question on the PSAI segment. The growth has been muted for a while. So how you see that growth playing out? You also mentioned the CDMO revenues at $100 million-plus. If you can give a color -- some color on the nature of this revenue? Is it generics or innovation related? And also the new contract that you signed, when you expect that to kick in? Is that meaningful? And any other CDMO contracts that can be added over the next year or so? Thank you.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Thank you, Saion. So on the CDMO, I believe that the growth trajectory will come. It's a combination of growth in discovery, what you call innovation. So this is growing in double digit. We have also certain contracts with big companies in which they want to transfer their production into our line. So we have several of these projects and as well as a normal CDMO, meaning that we are doing project for Phase III, Phase II for innovative companies. I believe that this business should grow and should reach 2 times to 3 times of these numbers in the next three years to four years. This is still our plan. I believe that we should be there. On the API side, part of it is that our older products have less demand. And part of it is because most of our launches and most of our activities are done more of as a B2B of finished product. This is actually going well. Part of it, we are recognizing as part of PCI and part of it, we are recognizing as part of the relevant EM or North America. So overall, the B2B is actually growing. The API merchants part of it is declining because most of the product, the peptides and this kind of stuff, people prefer to buy the finished goods rather than to buy the API.

Saion Mukherjee - Analyst, Nomura Securities
Understood. Thanks, Erez. Thank you.

Aishwarya Sitharam - Head, Investor Relations, Dr. Reddy's Laboratories
Thanks, Saion. That was the last question. Thank you all for joining us today. We value your time and participation on this call. If you have any further questions or need any additional information, please do feel free to reach out to me. With that, we conclude today's earnings call. Thanks, everyone.

Erez Israeli - Chief Executive Officer, Dr. Reddy's Laboratories
Thank you.

M V Narasimham - Chief Financial Officer, Dr. Reddy's Laboratories
Thank you.