Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q2 FY10 Financial Performance Review

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Q2 FY10 IFRS

All figures in millions, except EPS All dollar figures based on convenience translation rate of 1USD = Rs 48.09

Dr. Reddy's Laboratories Limited and Subsidiaries

Unaudited Condensed Consolidated Income Statement

		Q2 FY10			Q2 FY09			
Particulars		**($)**	**(Rs.)**	%	**($)**	**(Rs.)**	%	**Growth %**
Revenue	A	**382**	**18,368**	**100**	**336**	**16,151**	**100**	**14**
Cost of revenues	B	201	9,649	53	170	8,187	51	18
Gross profit	C = A-B	**181**	**8,719**	**47**	**166**	**7,964**	**49**	**9**
Operating Expenses								
Selling, general & administrative expenses[(a)]	D	111	5,336	29	110	5,286	33	1
Research and development expenses, net	E	20	963	5	17	825	5	17
Other (income)/expenses, net	F	(3)	(125)	(1)	2	88	1	
Total Operating Expenses	G = D+E+F	**128**	**6,174**	**34**	**129**	**6,199**	**38**	**(0)**
Results from operating activities	H = C - G	**53**	**2,545**	**14**	**37**	**1,765**	**11**	**44**
Finance income [(b)]	I	(6)	(293)	(2)	(2)	(92)	(1)	218
Finance expenses [(c)]	J	2	85	0	12	574	4	(85)
Finance expenses, net	K = I+J	**(4)**	**(208)**	**(1)**	**10**	**482**	**3**	
Share of profit/(loss) of equity accounted investees	L	0	15	0	0	2	0	754
Profit before income tax	M = H-K+L	**58**	**2,768**	**15**	**27**	**1,285**	**8**	**115**
Income tax expense	N	(12)	(595)	(3)	(5)	(232)	(1)	156
Profit for the period	O = M+N	**45**	**2,173**	**12**	**22**	**1,052**	**7**	**106**
Attributable to :								
Equity holders of the company	P	45	2,173	12	22	1,052	7	106
Minority interest	Q	0	0	0	0	0	0	
Profit for the period	R = P + Q	**45**	**2,173**	**12**	**22**	**1,052**	**7**	**106**

Diluted EPS		**0.3**	**12.8**		**0.1**	**6.2**		

Notes:

(a) Includes amortization charges of Rs. 329 million in Q2 FY10 and Rs. 472 million in Q2 FY09.

(b) Includes forex gain of Rs. 244 million in Q2 FY10.

(c) Includes forex loss of Rs. 296 million in Q2 FY09.

Key Balance Sheet Items **(in millions)**

Particulars	As on 30th Sep 09		As on 30th Jun 09	
	($)	(Rs.)	($)	(Rs.)
Cash and cash equivalents	128	6,149	129	6,184
Trade and other receivables	274	13,155	278	13,374
Inventories	273	13,136	290	13,933
Property, plant and equipment	442	21,278	436	20,970
Goodwill and Other Intangible assets	459	22,057	453	21,768
Loans and borrowings (current & non current)	305	14,668	335	16,109
Trade accounts payable	150	7,198	143	6,873
Equity (including reserves)	949	45,649	932	44,832

Revenue Mix by Segment

(in millions)

	Q2 FY10 $	Q2 FY10 INR	as a %	Q2 FY09 $	Q2 FY09 INR	as a %	Growth %
Global Generics	**264**	**12,706**	**69**	**231**	**11,112**	**69**	**14**
North America	89	4,285	34	65	3,140	28	36
Europe	59	2,849	22	68	3,291	30	(13)
India	52	2,520	20	47	2,237	20	13
Russia & Other CIS	49	2,347	18	39	1,855	17	26
Others	15	706	6	12	589	5	20
PSAI (Pharmaceutical Services & Active Ingredients)	**112**	**5,375**	**29**	**100**	**4,828**	**30**	**11**
North America	24	1,150	21	23	1,092	23	5
Europe	37	1,761	33	24	1,176	24	50
India	13	629	12	14	656	14	(4)
Others	38	1,835	34	40	1,903	39	(4)
Proprietary Products & Others	**6**	**287**	**2**	**4**	**211**	**1**	**36**
Total	**382**	**18,368**	**100**	**336**	**16,151**	**100**	**14**

Revenue Mix by Geography

(in millions)

	Q2 FY10 $	Q2 FY10 INR	as a %	Q2 FY09 $	Q2 FY09 INR	as a %	Growth %
North America	116	5,588	30	90	4,305	27	30
Europe	99	4,744	26	96	4,605	29	3
India	65	3,149	17	60	2,893	18	9
Russia & Other CIS	49	2,347	13	39	1,855	11	26
Others	53	2,540	14	52	2,492	15	2
Total	**382**	**18,368**	**100**	**336**	**16,151**	**100**	**14**

Key Highlights

- o Consolidated revenues at Rs. 18.4 billion ($382 million) in Q2 FY10 as against Rs. 16.2 billion ($336 million) in Q2 FY09, representing a growth of 14%. The growth is largely driven by Global Generics.
  - Consolidated revenues for H1 FY10 at Rs. 36.6 billion represent a YoY growth of 17%.
  - Sequentially, as compared to Q1 FY10, the revenues excluding sumatriptan have grown by 11%.
- o Operating income at Rs. 2.6 billion ($53 million) in Q2 FY10 as against Rs. 1.8 billion ($37 million) in Q2 FY09.
- o EBITDA at Rs. 3.8 billion ($79 million) in Q2 FY10 as against Rs. 2.5 billion ($52 million) in Q2 FY09, representing a growth of 51%.
  - EBITDA for H1 FY10 at Rs. 8.2 billion represents a YoY growth of 70%.
- o Revenues from Global Generics business at Rs. 12.7 billion ($264 million) in Q2 FY10 as against Rs. 11.1 billion ($231 million) in Q2 FY09. YoY growth of 14% driven by key markets of North America, Russia and India.
  - Revenues for H1 FY10 at Rs. 25.7 billion represent a YoY growth of 20%.
- o Revenues from Pharmaceutical Services & Active Ingredients (PSAI) increase by 11% to Rs. 5.4 billion ($112 million) in Q2 FY10 as against Rs. 4.8 billion ($100 million) in Q2 FY09.
  - Revenues for H1 FY10 at Rs. 10.2 billion represent a YoY growth of 9%.
- o During the quarter, the company launched 39 new generic products, filed 24 new product registrations and filed 5 DMFs globally.

Global Generics

- o Revenues from Global Generics business at Rs. 12.7 billion ($264 million) in Q2 FY10 as against Rs. 11.1 billion ($231 million) in Q2 FY09. YoY growth of 14% driven by key markets of North America, Russia and India.
  - Revenues from North America at Rs. 4.3 billion ($89 million) in Q2 FY10 as against Rs. 3.1 billion ($65 million) in Q2 FY09. The YoY growth of 36% continues to be driven by high volume growth across existing products and new product launches in the last 12 months.
  - The total cumulative ANDA filings are 141. 62 ANDAs are pending approval at the USFDA of which 27 are Para IVs and 16 are FTFs.
- o Revenues from Europe at Rs. 2.8 billion ($59 million) in Q2 FY10 as against Rs. 3.3 billion ($68 million) in Q2 FY09, representing a fall of 13%.
  - Revenues from Germany decrease by 21% to Rs. 2.2 billion ($46 million) in Q2 FY10 from Rs. 2.8 billion ($58 million) in Q2 FY09. This decrease is on account of the lower sales due to the AOK tender and the pricing pressure in the market.

        - The sequential growth of 37% in Q2 FY10 is due to one-time seasonal vaccine sales.
        - Pursuant to the ongoing reforms in the German generics pharmaceutical market, further tenders were announced by several of the public health insurance companies during the period. The Company has participated / intends to participate in these tenders through its wholly owned subsidiary betapharm. The final results of a majority of these tenders are yet to be announced. The results of these tenders may impact betapharm's business.
    - Revenues from Rest of Europe grew by 29% to Rs. 654 million ($14 million) in Q2 FY10. The growth is largely contributed by UK with sales of Rs. 436 million ($9 million) representing a growth of 20%.
- Revenues from Russia & Other CIS markets at Rs. 2.3 billion ($49 million) in Q2 FY10 as against Rs. 1.9 billion ($39 million) in Q2 FY09, representing a growth of 26%.
    - Revenues in Russia at Rs. 1.8 billion ($38 million) in Q2 FY10 as against Rs. 1.3 billion ($28 million) in Q2 FY09 representing a YoY growth of 39%.
        - The secondary prescription sales trend as per Pharmexpert for the five months of April to August compared to same period last year indicates a de-growth of 6% in dollar value for the industry as against Dr. Reddy's growth of 7% in dollar value terms.
    - Revenues in Other CIS markets fall by 4% to Rs. 502 million ($10 million) in Q2 FY10 as against Rs. 525 million ($11 million) in Q2 FY09.
- Revenues in India at Rs. 2.5 billion ($52 million) in Q2 FY10 from Rs. 2.2 billion ($47 million), representing a growth of 13% led by key brands of Omez, Omez-DSR and Razo.
    - Sequential growth of 5% over Q1 FY10 is led by volume growth.
    - The secondary sales trend as per ORG IMS for the five months April to August indicates a growth of 17% for Dr. Reddy's as against an industry growth of 14% and the Top 10 Companies growth of 16%.
    - 17 new products launched during the quarter.

Pharmaceutical Services and Active Ingredients

- Revenues from Pharmaceutical Services & Active Ingredients (PSAI) at Rs. 5.4 billion ($112 million) in Q2 FY10 as against Rs. 4.8 billion ($100 million) in Q2 FY09 ; YoY growth of 11% driven by the regions of Europe and the benefit of rupee depreciation against the dollar.
    - During the quarter, 5 DMFs were filed globally, with 2 in US, 2 in Europe and 1 in RoW. The cumulative DMF filings as of Sep 09 are 361.

Income Statement Highlights:

- o Gross profit at Rs. 8.7 billion ($181 million) in Q2 FY10 represents a margin of 47% to revenues as against 49% in Q2 FY09. The current quarter margins have been impacted by one-time inventory provisions of €6 million in betapharm on account of non-moving stocks and $4 million in the US for inventory valuation adjustments of sumatriptan stocks lying with the company. Excluding these non-recurring items, the adjusted margins are at 51%.
- o Selling, General & Administration (SG&A) expenses including amortization for the quarter are at $111 million, remained flat as compared to previous year. This expense includes the benefit of decrease in amortization charge due to the impairment of betapharm intangibles recorded in March 2009.
- o Other operating income of Rs. 125 million in Q2 FY10 as against Other operating expenses of Rs. 88 million in Q2 FY09. The movement is largely on account of the fact that in Q2 FY09, a provision for damages of Rs. 230 million was recorded on account of the German court upholding the validity of the olanzapine patent of the innovator in Germany.
- o R&D expenses at Rs. 963 million in Q2 FY10 represent 5% of revenues.
- o Finance income (net) are at Rs. 208 million in Q2 FY10 as against Finance costs (net) at Rs. 482 million in Q2 FY09. The change is mainly on account of :
  - Net forex gain of Rs. 244 million in Q2 FY10 as against net forex loss of Rs. 296 million in Q2 FY09.
  - Net interest expense of Rs. 42 million in Q2 FY10 as against Rs. 228 million in Q2 FY09.
- o PAT at Rs. 2.2 billion ($45 million) in Q2 FY10 as against Rs. 1.1 billion ($22 million), representing a growth of 106%.
- o PAT adjusted for exceptions in the previous year, represented a growth of 79%.
- o EPS of Rs. 12.8 ($0.3) in Q2 FY10 as against Rs. 6.2 ($0.1) in Q2 FY09.
- o Capital expenditure for H1 FY10 is at Rs. 1.4 billion ($30 million).

Disclaimer

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

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