

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q3 FY10 Financial Performance Review

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Dr. Reddy's Laboratories Limited and Subsidiaries
Unaudited Condensed Consolidated Income Statement

Particulars	Q3 FY10			Q3 FY09			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Revenue	373	17,296	100	397	18,401	100	(6)
Cost of revenues	183	8,487	49	175	8,129	44	4
Gross profit	190	8,809	51	221	10,272	56	(14)
Operating Expenses							
Selling, general & administrative expenses ^(a)	117	5,431	31	116	5,382	29	1
Research and development expenses, net	19	892	5	22	1,027	6	(13)
Write down of intangible assets	74	3,456	20	-	-	-	
Write down of goodwill	111	5,147	30	-	-	-	
Other (income)/expenses, net	(4)	(171)	(1)	2	110	1	
Total Operating Expenses	318	14,755	85	140	6,519	35	
Results from operating activities	(128)	(5,946)	(34)	81	3,753	20	
Finance income ^(b)	(1)	(47)	(0)	(2)	(89)	(0)	
Finance expenses ^(c)	2	97	1	17	788	4	
Finance expenses, net	1	50	0	15	699	4	
Share of profit/(loss) of equity accounted investees	0	2	0	0	8	0	
Profit before income tax	(129)	(5,994)	(35)	66	3,062	17	
Income tax expense	17	777	4	(13)	(617)	(3)	
Profit for the period	(112)	(5,217)	(30)	53	2,445	13	
Attributable to :							
Equity holders of the company	(112)	(5,217)	(30)	53	2,445	13	
Minority interest	-	-	-	-	-	-	
Profit for the period	(112)	(5,217)	(30)	53	2,445	13	
Diluted EPS	(0.7)	(30.9)		0.3	14.5		

Notes:

- (a) Includes amortization charges of Rs. 374 million in Q3 FY10 and Rs. 340 million in Q3 FY09.
- (b) Includes forex loss of Rs. 44 million in Q3 FY10.
- (c) Includes forex loss of Rs. 493 million in Q3 FY09.

Key Balance Sheet Items

(in millions)

Particulars	As on 31 st Dec 09		As on 30 th Sep 09	
	(\$)	(Rs.)	(\$)	(Rs.)
Cash and cash equivalents	119	5,539	133	6,149
Trade and other receivables	250	11,608	284	13,155
Inventories	278	12,907	283	13,136
Property, plant and equipment	461	21,407	459	21,278
Goodwill and Other Intangible assets	268	12,415	475	22,057
Loans and borrowings (current & non current)	270	12,517	313	14,516
Trade accounts payable	127	5,914	155	7,198
Equity (including reserves)	874	40,533	984	45,648

Revenue Mix by Segment

(in millions)

	Q3 FY10 \$	Q3 FY10 INR	as a %	Q3 FY09 \$	Q3 FY09 INR	as a %	Growth %
Global Generics	253	11,723	68	295	13,683	74	(14)
North America	64	2,974	25	143	6,651	49	(55)
Europe	56	2,579	22	54	2,506	18	3
India	57	2,632	22	42	1,967	14	34
Russia & Other CIS	60	2,769	24	43	2,006	15	38
Others	17	770	7	12	553	4	39
PSAI (Pharmaceutical Services & Active Ingredients)	113	5,237	30	96	4,458	24	17
North America	16	722	14	18	857	19	(16)
Europe	46	2,152	41	38	1,744	39	23
India	13	607	12	10	466	10	30
Others	38	1,757	34	30	1,391	31	26
Proprietary Products & Others	7	336	2	6	260	1	29
Total	373	17,296	100	397	18,401	100	(6)

Revenue Mix by Geography

(in millions)

	Q3 FY10 \$	Q3 FY10 INR	as a %	Q3 FY09 \$	Q3 FY09 INR	as a %	Growth %
North America	85	3,933	23	164	7,609	41	(48)
Europe	104	4,827	28	95	4,409	24	9
India	70	3,241	19	52	2,433	13	33
Russia & Other CIS	60	2,769	16	43	2,006	11	38
Others	54	2,527	15	42	1,944	11	30
Total	373	17,296	100	397	18,401	100	(6)

Key Highlights

- o Consolidated revenues at Rs. 17.3 billion (\$373 million) in Q3 FY10 as against Rs. 18.4 billion (\$397 million) in Q3 FY09, representing a decline of 6%. Excluding the revenues from sumatriptan in the previous year, the 17% growth is largely driven by the key businesses of PSAI, India and Russia.
 - Consolidated revenues for nine months FY10 at Rs. 53.9 billion (\$1.2 billion) represent a YoY growth of 9%.
- o EBITDA at Rs. 3.7 billion (\$79 million) in Q3 FY10. EBITDA for nine months FY10 at Rs. 11.8 billion (\$255 million) represents a YoY growth of 31%. Adjusted PBT for the quarter is at Rs. 2.6 billion (\$56 million).
- o During the quarter, many healthcare insurance providers in Germany announced their final tender results indicating a higher pace of transition to the tender based model in the German generics pharmaceutical market, with an associated significant deterioration in prices from the previous year's levels. As a result of this, the carrying value of betapharm's goodwill and intangibles were tested for impairment. **A non-cash write-down of intangible assets and 'beta' brand amounting to Euro 48 million and a non-cash write-down of goodwill amounting to Euro 76 million were recorded for the quarter.** The overall net impact on Income Statement was Euro 109 million after a reversal of deferred tax liability relating to intangibles and 'beta' brand.
- o Loss for the quarter is at Rs. 5.2 billion (\$112 million) and Adjusted PAT for the quarter is at Rs. 2.3 billion (\$50 million). Adjusted PAT for nine months this fiscal is at Rs. 7.3 billion (\$158 million) as against adjusted PAT of Rs. 5.1 billion (\$110 million) in the previous year, representing a growth of 43%.
- o During the quarter, the company launched 27 new generic products, filed 16 new product registrations and filed 11 DMFs globally.

Global Generics

Revenues from Global Generics business at Rs. 11.7 billion (\$253 million) in Q3 FY10 as against Rs. 13.7 billion (\$295 million) in Q3 FY09. Excluding the revenues from sumatriptan the growth is at 16% driven by the key markets of India and Russia.

- o Revenues of Global Generics for the nine months at Rs. 37.4 billion (\$807 million) represent a growth of 7%.
- o Revenues from North America at Rs. 3.0 billion (\$64 million) in Q3 FY10 as against Rs. 6.7 billion (\$143 million) in Q3 FY09. Excluding the revenues from sumatriptan the growth is flat.
 - The total cumulative ANDA filings are 141. 62 ANDAs are pending approval at the USFDA of which 35 are Para IVs and 13 are FTFs.
- o Revenues from Europe at Rs. 2.6 billion (\$56 million) in Q3 FY10 as against Rs. 2.5 billion (\$54 million) in Q3 FY09, representing a growth of 3%.

- Revenues from Germany increase by 2% to Rs. 2.0 billion (\$44 million) in Q3 FY10.
- Revenues from Rest of Europe grew by 6% to Rs. 534 million (\$12 million) in Q3 FY10.
- o Revenues from Russia & Other CIS markets at Rs. 2.8 billion (\$60 million) in Q3 FY10 as against Rs. 2.0 billion (\$43 million) in Q3 FY09, representing a growth of 38%.
 - Revenues in Russia at Rs. 2.3 billion (\$49 million) in Q3 FY10 as against Rs. 1.6 billion (\$34 million) in Q3 FY09 representing a YoY growth of 45%.
 - The secondary prescription sales trend as per Pharmexpert for the eight months of April to November compared to same period last year indicates a dollar growth of 13% for Dr. Reddy's as against the industry's growth of 2%.
 - Revenues in Other CIS markets increase by 13% to Rs. 488 million (\$11 million) in Q3 FY10 as against Rs. 434 million (\$9 million) in Q3 FY09.
- o Revenues in India at Rs. 2.6 billion (\$57 million) in Q3 FY10 from Rs. 2.0 billion (\$42 million), representing a growth of 34% led by key brands of Omez, Nise, Stamlo Beta, Reditux & Stamlo.
 - The YoY growth of 34%, is largely driven by volume growth of 29% from existing portfolio and 7% by new product launches.
 - Sequentially, the value growth is at 4% largely driven by volume growth across products.
 - The secondary sales trend as per ORG IMS for the eight months April to November 2009 indicates a growth of 20% for Dr. Reddy's as against an industry growth of 16% and the Top 10 Companies growth of 19%.
 - 18 new products launched during the quarter. 56 new products launched in the nine months FY10 contributed 4% to nine months sales.

Pharmaceutical Services and Active Ingredients (PSAI)

Revenues from Pharmaceutical Services & Active Ingredients (PSAI) at Rs. 5.2 billion (\$113 million) in Q3 FY10 as against Rs. 4.4 billion (\$96 million) in Q3 FY09 ; YoY growth of 17% driven by the regions of India and RoW.

- o Revenues of PSAI for the nine months at Rs. 15.5 billion (\$334 million) represent a growth of 11%.
- o During the quarter, 11 DMFs were filed globally, with 3 in US and 8 in Europe. The cumulative DMF filings as of Dec 09 are 388.

Income Statement Highlights:

- o Gross profit at Rs. 8.8 billion (\$190 million) in Q3 FY10 represents a margin of 51% to revenues as against 56% in Q3 FY09. This change in gross margins is on account of a favorable mix of high margin revenues from sumatriptan in the previous year.
- o Selling, General & Administration (SG&A) expenses excluding amortization for the quarter at Rs. 5.1 billion (\$117 million), remained flat as compared to both previous year and sequentially.
- o Amortization expenses for the quarter at Rs. 374 million (\$8 million) showed a modest growth from previous year of Rs. 340 million (\$7 million).
- o Other operating income of Rs. 171 million in Q3 FY10 as against Other operating expenses of Rs. 110 million in Q3 FY09. The movement is largely on account of the fact that in Q3 FY09, a provision for damages of Rs. 224 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. 892 million in Q3 FY10 represent 5% of revenues.
- o Finance costs (net) are at Rs. 50 million in Q3 FY10 as against Rs. 699 million in Q3 FY09. The change is mainly on account of :
 - Net forex loss of Rs. 44 million in Q3 FY10 as against Rs. 493 million in Q3 FY09.
 - Net interest expense of Rs. 19 million in Q3 FY10 as against Rs. 215 million in Q3 FY09.
- o Loss for the quarter is at Rs. 5.2 billion (\$112 million) and Adjusted PAT for the quarter is at Rs. 2.3 billion (\$50 million). Adjusted PAT for nine months FY10 is at Rs. 7.3 billion (\$158 million) as against adjusted PAT of Rs. 5.1 billion (\$110 million) in the previous year, representing a growth of 43%.
- o The adjusted effective tax rate for the nine months is at 19%.
- o Adjusted diluted EPS is at Rs. 13.6 (29 cents) for the quarter and Rs. 43.3 (93 cents) for nine months FY10.
- o Capital expenditure for nine months FY10 is at Rs. 2.6 billion (\$56 million).

**Note : Adjusted PAT represents PAT adjusted for one-time impacts like impairment (Q3 FY10), betapharm workforce restructure costs (Q1 FY10) and Atlanta facility closure costs (Q1 FY10)*

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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