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FY10

May 6, 2010

Dr. Reddy's Laboratories Ltd.

www.drreddys.com

Business Highlights

FY10

- Consolidated revenues at Rs. 70.3 bn (\$1.6 bn) in FY10 versus Rs. 69.4 bn (\$1.5 bn) in FY09, or a YoY growth of 1%. Excluding revenues from the authorized generic sales of sumatriptan, the 9% growth is largely driven by the Branded Generics segment of Global Generics.
 - Q4FY10 revenues at Rs 16.4 bn (\$365 mn)
- Adjusted* EBITDA at Rs. 15.8 bn (\$352 mn) in FY10 or a year-on-year growth of 5%.
 - Leading EBITDA generator amongst the Indian pharmaceutical companies
 - Adjusted EBITDA for Q4 FY10 is at Rs. 3.4 bn (\$78 mn).
- Adjusted* Net Profit after Tax for FY10 is at Rs. 9.2 bn (\$205 mn) or a year-on-year growth of 10%.
 - Adjusted Net Profit after Tax for Q4 FY10 is at Rs. 1.9 bn (\$43 mn).
- There was an impairment charge in FY10 amounting to Rs. 8.6 bn (\$191 mn) recorded in Q3 FY10, significantly on account of a non-cash write-down of intangible assets, 'beta' brand and goodwill of betapharm..
- During the year, the company launched 103 new generic products, filed 121 new product registrations and 36 DMFs globally.

Global Generics

Revenues from Global Generics business at Rs. 48.6 bn (\$1.1 bn) in FY10 representing a marginal decline of 2% over previous year. Excluding the authorized generic revenues from sumatriptan, the growth is at 8% driven largely by the Branded Generics segment. Revenues for Q4FY10 is at Rs. 11.2bn (\$109mn).

- Revenues from North America at Rs. 16.8 bn (\$374 mn) in FY10 versus Rs. 19.8 bn (\$441 mn) in FY09. Excluding the revenues from Authorized Generic sales of sumatriptan the growth is at 13%. Revenues for Q4FY10 at Rs. 3.5bn (\$79 mn)
- Revenues from Europe at Rs. 9.6 bn (\$215 mn) in FY10 versus Rs. 11.9 bn (\$264 mn) in FY09, or a decline of 19%. Revenues for Q4FY10 at Rs. 2.1bn (\$47 mn).
 - Revenues from Germany decreased by 26% to Rs. 7.3 bn (\$162 mn) in FY10.
 - Revenues from Rest of Europe grew by 17% to Rs. 2.3 bn (\$52 mn) in FY10 largely led by the 14% growth in UK.
- Revenues from Russia & Other CIS markets at Rs. 9.1 bn (\$203 mn) in FY10 versus Rs. 7.6 bn (\$170 mn) in FY09, or a growth of 20%. Revenues for Q4FY10 at Rs. 2.1 bn (\$47 mn).
 - Revenues in Russia at Rs. 7.2 bn (\$161 mn) in FY10 as against Rs. 5.8 bn (\$129 mn) in FY09 or a YoY growth of 25%. Growth largely driven by price increases.
 - Revenues in Other CIS markets increase by 4% to Rs. 1.9 bn (\$42 mn) in FY10 versus Rs. 1.8 bn (\$41 mn) in FY09.
- Revenues in India at Rs. 10.2 bn (\$226 mn) in FY10 versus Rs. 8.5 bn (\$189 mn) in FY09, or a growth of 20% led by volume growth across products and new product launches. Revenues for Q4FY10 is at Rs. 2.6 bn (\$58 mn).
 - Dr. Reddy's secondary prescriptions sales growth of 23% versus industry growth of 18%.
(Source: ORG IMS MAT - Mar,2010)

Pharmaceutical Services & Active Ingredients (PSAI)

- Revenues from PSAI at Rs. 20.4 bn (\$454 mn) in FY10 or a growth of 9%. Revenues for Q4FY10 is at Rs. 4.9 bn (\$110 mn)
- During the year 36 DMFs were filed globally, with 19 in US, 5 in Canada, 8 in Europe and 4 in RoW. The cumulative DMF filings as of Mar 2010 are 375.

**Note:*

1. Adjusted PAT represents PAT adjusted for impact of one-time charges for non-cash impairment charge of Rs 8.6 bn (\$191 mn) recorded in Q3 FY10 and betapharm workforce restructure costs of Rs 496 mn (\$11 mn) recorded in Q1 FY10 and Rs 409 mn (\$9 mn) recorded in Q4 FY10 and the tax impact of the above.

2. Similarly, adjusted EBITDA represents EBITDA adjusted for the above mentioned betapharm workforce restructure costs.

All figures in millions, except EPS
All dollar figures based on convenience translation rate of 1USD = Rs 44.95

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

Particulars	FY10			FY09			Growth%
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Revenue	1,563	70,277	100	1,545	69,441	100	1
Cost of Revenues	755	33,937	48	733	32,941	47	3
Gross Profit	808	36,340	52	812	36,500	53	(0)
Operating Expenses							
Selling, general & administrative expenses ^(a)	501	22,505	32	468	21,020	30	7
Research and development expenses, net	84	3,793	5	90	4,037	6	(6)
Write down of intangible assets	77	3,456	5	70	3,167	5	9
Write down of goodwill	115	5,147	7	242	10,856	16	(53)
Other (income)/expenses, net	(13)	(569)	(1)	6	252	0	
Total Operating Expenses	764	34,332	49	875	39,332	57	(13)
Results from operating activities	45	2,008	3	(63)	(2,832)	(4)	
Finance income ^(b)	(8)	(369)	(1)	(11)	(485)	(1)	(24)
Finance expenses ^(c)	8	372	1	37	1,672	2	(78)
Finance expenses, net	0	3	0	26	1,187	2	(100)
Share of profit/ (loss) of equity accounted investees	1	48	0	1	24	0	100
Profit before income tax	46	2,053	3	(89)	(3,995)	(6)	(16)
Income tax expense	(22)	(985)	(1)	(26)	(1,173)	(2)	
Profit for the period	24	1,068	2	(115)	(5,168)	(7)	
Attributable to:							
Equity holders of the company	24	1,068	2	(115)	(5,168)	(7)	
Minority interest	0	0	0	0	0	0	
Profit for the period	24	1,068	2	(115)	(5,168)	(7)	
Diluted EPS	0.1	6.3		(0.7)	(30.7)		

(a) Includes amortization charges of Rs. 1,479 mn (\$33 mn) in FY10 and Rs. 1,503 mn (\$33 mn) in FY09.

(b) Includes forex gain of Rs. 72 mn (\$2 mn) in FY10.

(c) Includes forex loss of Rs. 634 mn (\$14 mn) in FY09.

Key Balance Sheet Items

(in millions)

Particulars	As on 31 st Mar 10		As on 31 st Mar 09	
	(\$)	(Rs.)	(\$)	(Rs.)
Cash and cash equivalents	146	6,584	124	5,596
Trade and other receivables	266	11,960	325	14,592
Inventories	297	13,371	294	13,226
Property, plant and equipment	500	22,459	465	20,882
Goodwill and Other intangible assets	311	13,973	493	22,179
Loans and borrowings (current & non-current)	327	14,695	438	19,701
Trade accounts payable	148	6,642	133	5,987
Equity	955	42,915	935	42,045

Income Statement Highlights

- Gross profit at Rs. 36.3 bn (\$808 mn) in FY10 or a margin of 52% to revenues versus 53% in FY09. This change in gross margins is largely on account of a favorable mix of high margin revenues from sumatriptan in the previous year.
- Selling, General & Administration (SG&A) expenses excluding amortization for the year at Rs. 21.0 bn (\$468 mn) grew by 8% over the previous year. Excluding the one-time charges recorded on account of betapharm workforce restructure costs of Rs. 905 million (\$20 million), closure of Charlotte & Atlanta facility of Rs. 160 million (\$4 million), the SG&A marginally grew by 2%.
- Amortization expenses for the year at Rs. 1,479 mn (\$33 mn) remains flat as compared to the previous year.
- Other Operating Income of Rs. 569 mn (\$13 mn) in FY10 as against Other Operating Expenses of Rs. 252 mn in FY09. The movement is largely on account of Rs. 916 mn of damages recorded in the FY09 on account of the German court upholding the validity of the olanzapine patent of the innovator in Germany.
- R&D expenses at Rs. 3.8 bn (\$84 mn) in FY10 or a 6% reduction as compared to the previous year.
- Finance costs (net) are at Rs. 3 mn in FY10 as against Rs. 1.2 bn in FY09. The change is mainly on account of :
 - Net forex gain of Rs. 72 mn in FY10 as against net forex loss of Rs. 634 mn in FY09.
 - Net interest expense of Rs. 123 mn in FY10 as against Rs. 689 mn in FY09.
- Adjusted EBITDA at Rs. 15.8 bn (\$352 mn) in FY10 or a YoY growth of 4%. Adjusted EBITDA for Q4 FY10 is at Rs. 3.5 bn (\$78 mn).
- Adjusted Net Profit after Tax for FY10 is at Rs. 9.2 bn (\$205 mn) representing a year-on-year growth of 10%.
- Adjusted Net Profit after Tax for Q4 FY10 is at Rs. 1.9 bn (\$43 mn).
- The effective tax rate for the year is at 20%.
- Adjusted diluted EPS is at Rs. 54.3 (\$1.2) for the year.
- Capital expenditure for FY10 is at Rs. 4.2 bn (\$93 mn).

Revenue Mix by Geography

(in millions)

	FY10 \$	FY10 INR	as a %	FY09 \$	FY09 INR	as a %	Growth %
North America	473	21,268	30	537	24,140	35	(12)
Europe	373	16,779	24	412	18,518	27	(9)
India	285	12,808	18	242	10,861	16	18
Russia & other CIS	203	9,119	13	170	7,623	11	20
Others	229	10,302	15	185	8,299	12	24
TOTAL	1,563	70,276	100	1,545	69,441	100	1

Revenue Mix by Segment

(in millions)

	FY10 \$	FY10 INR	as a %	FY09 \$	FY09 INR	as a %	Growth %
Global Generics	1,081	48,605	69	1,108	49,790	72	(2)
North America	374	16,817	35	441	19,843	40	(15)
Europe	215	9,643	20	264	11,886	24	(19)
India	226	10,158	21	189	8,478	17	20
Russia & other CIS	203	9,119	19	170	7,623	15	20
RoW	64	2,868	6	44	1,959	4	46
PSAI (Pharmaceutical Services & Active Ingredients)	454	20,404	29	417	18,758	27	9
North America	82	3,672	18	86	3,875	21	(5)
Europe	148	6,653	33	137	6,160	33	8
India	59	2,646	13	53	2,383	13	11
RoW	165	7,433	36	141	6,340	34	17
Others	28	1,267	2	20	893	1	42
Total	1,563	70,276	100	1,545	69,441	100	1

Key Company Updates

FY10

- Achievement of FY10 RoCE guidance (adjusted RoCE of 17% in FY10)
- Improvement in profitability driven by control of costs across the organization
- Year of consolidation
 - Some major restructuring efforts:
 - Reduction of betapharm's workforce by more than 200 in FY10 to support the new business model
 - Integration of our discovery R&D centers spread across locations
 - The reorganization of our North America Generics business to centralize all commercial and business functions in our New Jersey office and centralize all operational functions in our Louisiana facility
- Approval of our third biosimilar product, darbepoetin, which we expect to launch in the first quarter of FY11
- Strategic alliance with GSK progressing well
 - First set of major shipments have already been made to Mexico earlier than our expectations
 - Shipment of 8 products in 2 markets ; filing of 50+ dossiers

Dr. Reddy's announced strategic alliance with GSK for Emerging Markets

We entered into a partnership with GlaxoSmith- Kline (GSK) to develop and market select products across emerging markets outside India. Under the agreement, GSK will gain access to our portfolio and future pipeline of over 100 branded pharmaceuticals in fast growing therapeutic segments such as cardiovascular, diabetes, oncology, gastroenterology and pain management.

The products will be manufactured by Dr. Reddy's and will be licensed and supplied to GSK in various emerging markets such as Africa, the Middle East, Latin America and Asia Pacific excluding India. Revenues will be reported by GSK and will be shared with Dr. Reddy's as per agreed terms. In certain markets products will be co-marketed by Dr. Reddy's and GSK.



GV Prasad, Vice-Chairman & CEO, Dr. Reddy's and Abbas Hussain, President Emerging Markets, GSK during the signing of the deal.

- We realigned our Global Generics finished dosages strategy to focus on certain key geographies and gradually exit some of the very small distributor driven markets. This move represented an important new focus to consolidate and grow the Company's presence in the key geographies where it already had a considerable presence.



- Effective July 1, 2009 the company's Drug Discovery operations at Hyderabad were absorbed into Aurigene, a wholly owned independent subsidiary of the company.

- Dr. Reddy's entered the transdermal patch segment with launch of FINRID™ (Fentanyl Transdermal Patch) in India.



Q4 FY10 Consolidated Income Statement

FY10

All figures in millions, except EPS
All dollar figures based on convenience translation rate of 1USD = Rs 44.95

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

Particulars	Q4 FY10			Q4 FY09			Growth%
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Revenue	365	16,424	100	442	19,851	100	(17)
Cost of Revenues	173	7,784	47	202	9,081	46	(14)
Gross Profit	192	8,640	53	240	10,770	54	(20)
Operating Expenses							
Selling, general & administrative expenses	129	5,811	35	117	5,267	27	10
Research and development expenses, net	21	953	6	25	1,135	6	(16)
Write down of intangible assets	0	0	0	70	3,167	16	
Write down of goodwill	0	0	0	242	10,856	55	
Other (income)/expenses, net	(5)	(238)	(1)	(4)	(187)	(1)	27
Total Operating Expenses	145	6,526	40	450	20,239	102	(68)
Results from operating activities	47	2,114	13	(211)	(9,468)	(48)	
Finance income	1	59	0	0	17	0	254
Finance expenses	(1)	(33)	(0)	1	66	0	
Finance expenses, net	1	26	0	2	83	0	(69)
Share of profit/ (loss) of equity accounted investees	0	20	0	0	14	0	43
Profit before income tax	47	2,108	13	(212)	(9,537)	(48)	
Income tax expense	(10)	(441)	(3)	5	(240)	(1)	84
Profit for the period	37	1,667	10	(218)	(9,777)	(49)	
Attributable to:							
Equity holders of the company	37	1,667	10	(218)	(9,777)	(49)	
Minority interest	0	0	0	0	0	0	
Profit for the period	37	1,667	10	(218)	(9,777)	(49)	
Diluted EPS	0.2	9.8		(1.3)	(58.1)		

