

# Dr Reddy's Laboratories Ltd.

NYSE:RDY

## Q1 FY 04 Financial Performance Review

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#### *Q1 FY 04 USGAAP*

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 46.40

## UNAUDITED INCOME STATEMENT

Particulars	Q1 FY04			Q1 FY03			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
<b>Total Revenues</b>	<b>104</b>	<b>4,812</b>	<b>100</b>	<b>98</b>	<b>4,533</b>	<b>100</b>	6
Cost of revenues	47	2,162	45	44	2,020	45	7
Gross profit	<b>57</b>	<b>2,650</b>	<b>55</b>	<b>54</b>	<b>2,513</b>	<b>55</b>	5
Selling, General & Administrative Expenses	32	1,464	30	21	966	21	52
R&D Expenses	7	326	6.8	4	207	4.6	58
Amortization Expenses	2	96	2	3	131	3	(27)
Forex loss/ (gains)	(2)	(78)	(2)	0	(5)	(0)	NA
Total operating expenses	39	1,808	38	28	1,299	29	39
<b>Operating income</b>	<b>18</b>	<b>842</b>	<b>18</b>	<b>26</b>	<b>1,214</b>	<b>27</b>	(31)
Equity in loss of affiliates	0	14	0	1	24	1	(42)
Other expenses/(income) net	(3)	(141)	(3)	(2)	(99)	(2)	43
Income before income taxes	21	969	20	28	1,289	28	(25)
Income tax (benefit)/expense	4	177	4	2	95	2	86
<b>Net income</b>	<b>17</b>	<b>792</b>	<b>16</b>	<b>26</b>	<b>1,194</b>	<b>26</b>	(34)
<b>DEPS</b>	0.22	10.35		0.34	15.60		
Exchange rate	46.40			46.40			
<b>Key Balance Sheet Items</b>							
Cash and cash equivalents	163	7,578		135	6,271		
Accounts receivable, net of allowances	90	4,163		77	3,566		
Inventories	62	2,882		55	2,542		
Property, plant and equipment, net	110	5,105		88	4,094		

**Note:** Dr. Reddy's is the first Indian Company to adopt the fair value recognition provisions of Accounting for Stock-Based compensation under USGAAP. This has resulted in recognizing a non-cash compensation cost of Rs.20.4 million for the quarter.

## Revenue Mix by Segment

(in million)

	Q1 FY04 \$	Q1 FY04 INR	as a %	Q1 FY03 \$	Q1 FY03 INR	as a %	Growth %
<b>APIs</b>	<b>36</b>	<b>1,655</b>	<b>34</b>	<b>38</b>	<b>1,753</b>	<b>39</b>	<b>(6)</b>
India	10	481	29	11	520	30	(8)
International	25	1,174	71	27	1,233	70	(5)
<b>Branded Formulations</b>	<b>39</b>	<b>1,822</b>	<b>38</b>	<b>34</b>	<b>1,566</b>	<b>35</b>	<b>16</b>
India	26	1,202	66	22	1,042	67	15
International	13	620	34	11	524	33	18
<b>Generics</b>	<b>26</b>	<b>1,198</b>	<b>25</b>	<b>23</b>	<b>1,070</b>	<b>24</b>	<b>12</b>
<b>Emerging Business</b>	<b>2</b>	<b>82</b>	<b>2</b>	<b>2</b>	<b>99</b>	<b>2</b>	<b>(17)</b>
<b>Custom Chemical Business</b>	<b>1</b>	<b>24</b>	<b>0</b>	<b>1</b>	<b>28</b>	<b>1</b>	<b>(14)</b>
<b>Others</b>	<b>1</b>	<b>31</b>	<b>1</b>	<b>0</b>	<b>17</b>	<b>0</b>	<b>82</b>
<b>Total</b>	<b>104</b>	<b>4,812</b>	<b>100</b>	<b>98</b>	<b>4,533</b>	<b>100</b>	<b>6</b>

## Revenue Mix by Geography

(in million)

	Q1 FY04 \$	Q1 FY04 INR	as a %	Q1 FY03 \$	Q1 FY03 INR	as a %	Growth %
India	38	1,749	36	36	1,661	37	5
North America	33	1,554	32	36	1,657	37	(6)
Russia	9	435	9	7	343	8	27
Europe	9	412	9	7	322	7	28
Others	14	662	14	12	550	12	21
<b>TOTAL</b>	<b>104</b>	<b>4,812</b>	<b>100</b>	<b>98</b>	<b>4,533</b>	<b>100</b>	<b>6</b>

## Business Highlights

- Revenues at Rs 4.8 billion as against Rs 4.5 billion in Q1FY03; YoY growth of 6%
- Revenues outside India at Rs 3 billion as against Rs 2.9 billion in Q1 FY03; YoY growth of 7%.
- Revenues in Europe at Rs 412 million as against Rs 322 million in Q1 FY03; YoY growth of 28%. This growth has been driven primarily by the performance of new products launched in UK in the previous year.
- Revenues in Russia at Rs 435 million as against Rs 343 million in Q1 FY03; YoY growth of 27%

## Generic Formulations

- Revenues in this segment at Rs 1.2 billion as against Rs 1.1 billion in Q1FY03; YoY growth of 12%.
- North America contributed 81% to the total revenues while Europe contributed the balance.
- Fluoxetine capsules 40mg revenues in North America at Rs 588 million as against Rs 799 million in Q1 FY 03. This compares with revenues of Rs 434 million in Q4 FY03.
- Tizanidine tablets 2 & 4 mg contributed Rs 200 million to the revenues in North America.
- Revenues in Europe at Rs 223 million as against Rs 111 million in Q1FY03, representing a growth of 101%. New products launched in the previous fiscal including Omeprazole are significant contributors to the growth.
- During the quarter, the Company filed 1 ANDA with Para IV certification taking the total ANDAs pending at the USFDA to 24.

## Branded Formulations - International

- Revenues at Rs 620 million, an increase of 18% over Q1FY03. The growth was primarily driven by the Company's performance in Russia and other CIS markets.
- Revenues in Russia increased primarily on account of the growth in key products of Omez, Ciprolet and Ketorol partially offset by decline in revenues of Enam.

## Branded Formulations – International: Revenues by Geography

*(in million)*

Country	Q1 FY04 \$	Q1 FY04 INR	as a %	Q1 FY03 \$	Q1 FY03 INR	as a %	Growth %
Russia	9	424	68	7	343	66	23
Other CIS	2	98	16	2	89	17	10
Europe	0.5	24	4	0.3	11	2	118
Others	1.5	74	12	1.7	80	15	(8)
<b>Total</b>	<b>13</b>	<b>620</b>	<b>100</b>	<b>11</b>	<b>524</b>	<b>100</b>	<b>18</b>

## Branded Formulations - India

- Revenues at Rs 1.2 billion as against Rs 1 billion in Q1 FY03, an increase of 15%. This growth has primarily been driven by growth in our key brands including Omez, Gaity, Stamlo, Stamlo Beta and Enam.
- As per June ORG MARG, the Company grew at a MAT of 11.5% compared with industry average growth rate of 4.1%.

### Branded Formulations – India: Revenues by Therapies (in million)

Therapeutic Segment	Q1 FY04 \$	Q1 FY04 INR	as a %	Q1 FY03 \$	Q1 FY03 INR	as a %	Growth%
Gastro Intestinal	5	243	20	4	188	18	29
Pain Management	4	198	17	4	203	19	(2)
Cardiovascular	5	218	18	4	164	16	32
Anti Infectives	3	126	10	3	120	12	5
Natural	3	134	11	3	133	13	1
Women's Health Care	1	63	5	1	54	5	18
Diabetic Care	1	51	4	1	38	4	36
Dermatology	1	52	4	1	39	4	31
Specialty	2	77	6	2	70	7	10
Dental	1	39	3	1	33	3	17
<b>Total</b>	<b>26</b>	<b>1,202</b>	<b>100</b>	<b>22</b>	<b>1,042</b>	<b>100</b>	<b>15</b>

### Branded Formulations – India: Revenues by Key brands (in million)

Brand	Q1 FY04 \$	Q1 FY04 INR	as a %	Q1 FY03 \$	Q1 FY03 INR	as a %	Growth%
Nise	4	164	14	3	154	15	7
Omez	3	154	13	2	104	10	49
Stamlo	2	77	6	1	61	6	27
Stamlo Beta	1	48	4	1	34	3	39
Enam	1	45	4	1	34	3	33
Ciprolet	1	35	3	1	40	4	(11)
Gaity	1	29	2	0	15	1	98
Antoxid	1	26	2	1	30	3	(12)
Reclide	1	25	2	0	21	2	21
Mintop	0	22	2	0	13	1	74
Others	12	575	48	12	538	52	7
<b>Total</b>	<b>26</b>	<b>1,202</b>	<b>100</b>	<b>22</b>	<b>1,042</b>	<b>100</b>	<b>15</b>

### Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 1.6 billion as against Rs 1.7 billion in Q1 FY03, a YoY decline of 6%.
- Revenues outside India at Rs 1.17 billion as against Rs 1.23 billion in FY03, a decline of 5%.
- Revenues from North America, our single largest market, at Rs 575 million as against Rs 678 million in Q1 FY03. The decline in revenues from tizanidine was partially offset by growth in key products of naproxen sodium, ranitidine Hcl form1 and sertraline.
- The Company filed 3 US DMFs during the quarter taking the total filings to 43.
- Revenues in India at Rs 481 million as against Rs 520 million in Q1 FY03, a decline of 8%.

### API - Geographic Mix

(in million)

	Q1 FY04 \$	Q1 FY04 INR	As a %	Q1 FY03 \$	Q1 FY03 INR	as a %	Growth%
North America	12	575	35	15	678	39	(15)
India	10	481	29	11	520	30	(8)
Europe	3	126	8	4	186	11	(32)
ROW	10	473	29	8	369	21	28
<b>TOTAL</b>	<b>36</b>	<b>1,655</b>	<b>100</b>	<b>38</b>	<b>1,753</b>	<b>100</b>	<b>(6)</b>

### Other Businesses

- Revenues in the diagnostics, critical care & biotechnology segment at Rs 82 million as against Rs 99 million in Q1 FY03. The decline has been primarily on account of the closure of diagnostic operations during the quarter.
- Revenues in the Custom Chemical Services segment at Rs 24 million as against Rs 28 million in Q1 FY03.

## Income Statement Highlights

- Gross Profit margin on total revenues sustain at 55% driven by the overall business and product mix.
- R&D expenditure at Rs 326 million as against Rs 207 million in Q1FY03. As a %, R&D expenditure is at 6.8% of total revenues as against 4.6% in Q1 FY03. The increase in R&D expenditure is primarily on account of increased number of bio-studies in Generics and higher development activity in APIs and CCS.
- Selling, General & Administration (SG&A) expenses at Rs 1.5 billion as against Rs 966 million in Q1 FY03. As a %, SG&A expenses are at 30% of total revenues as against 21% in FY03. This increase is primarily on account of increase in legal & consultancy charges, employee cost and marketing expenses.
- During the quarter, gain under the head 'forex exchange gain/loss' is Rs 78 million as against Rs 5 million in Q1 FY03. This includes a loss of Rs 43 million on account of the rupee appreciation, which is more than offset by the gain arising from forward contracts.
- Other income (net) increased to Rs 141 million from Rs 99 million in Q1 FY03. This includes interest income on fixed deposits of Rs 101 million.
- Depreciation for the quarter is at Rs 172 million as against Rs 130 million for Q1 FY03.
- Net income at Rs 792 million (16% of total revenues) as against Rs 1.2 billion (26% of total revenues) in Q1FY03. This translates to a diluted EPS of Rs 10.35 as against Rs 15.60 in Q1 FY03.
- As at the end of the quarter, the cash and cash equivalents increased to Rs 7.6 billion or \$ 163 million.
- During the quarter, the company invested Rs 151 million in Aurigene Discovery Technologies and Aurigene Inc., bringing the total investments to Rs 852 million.
- During the quarter, the Company incurred normal capital expenditure of Rs 456 million.
- There has been an increase in the number of days of sales outstanding to 79 days from 73 as at the end of March 2003.
- Inventory Turnover in days of revenues decreased marginally to 55 days from 56 days as at the end of March 2003.

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