

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q2 FY 04 Financial Performance Review

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Q2 FY 04 USGAAP

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 45.78

UNAUDITED INCOME STATEMENT

Particulars	Q2 FY04			Q2 FY03			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues	117	5,377	100	108	4,928	100	9
Cost of revenues	54	2,454	46	50	2,286	46	7
Gross profit	64	2,923	54	58	2,642	54	11
Selling, General & Administrative Expenses	32	1,471	27	27	1,233	25	19
R&D Expenses	11	490	9	8	380	8	29
Amortization Expenses	2	95	2	2	94	2	2
Forex loss/ (gains)	(2)	(97)	(2)	1	36	1	NA
Total operating expenses	43	1,960	36	38	1,743	35	12
Operating income	21	962	18	20	899	18	7
Equity in loss of affiliates	0	13	0	1	39	1	(66)
Other expenses/(income) net	(4)	(169)	(3)	(5)	(242)	(5)	(30)
Income before income taxes	24	1,118	21	24	1,102	22	1
Income tax (benefit)/expense	4	190	4	4	172	3	10
Minority interest	0	0	0	0.1	4	0.1	(100)
Net income	20	929	17	20	926	19	0.3
DEPS	0.27	12.14		0.26	12.10		
Exchange rate	45.78			45.78			
Key Balance Sheet Items							
Cash and cash equivalents	166	7,596		142	6,490		
Accounts receivable, net of allowances	92	4,217		83	3,790		
Inventories	68	3,123		57	2,589		
Property, plant and equipment, net	123	5,638		95	4,341		

Revenue Mix by Segment

(in million)

	Q2 FY04 \$	Q2 FY04 INR	as a %	Q2 FY03 \$	Q2 FY03 INR	as a %	Growth %
APIs	44	2,021	37	38	1,739	35	16
India	14	660	33	11	495	28	33
International	30	1,361	67	27	1,244	72	9
Branded Formulations	43	1,970	37	44	2,021	41	(2)
India	30	1,395	71	29	1,343	66	4
International	13	576	29	15	678	34	(15)
Generics	27	1,243	23	22	1,021	21	22
Emerging Business	2	89	2	2	113	2	(21)
Custom Chemical Business	1	28	0.5	0	17	0.5	66
Others	1	25	0.5	0	17	0.5	52
Total	117	5,377	100	108	4,928	100	9

Revenue Mix by Geography

(in million)

	Q2 FY04 \$	Q2 FY04 INR	as a %	Q2 FY03 \$	Q2 FY03 INR	as a %	Growth %
India	47	2,141	40	43	1,951	40	10
North America	31	1,425	27	34	1,577	32	(10)
Russia	8	369	7	10	439	9	(16)
Europe	18	816	15	7	299	6	173
Others	14	626	11	14	661	13	(5)
TOTAL	117	5,377	100	108	4,928	100	9

Key Highlights

- Revenues at Rs 5.4 billion as against Rs 4.9 billion in Q2FY03; YoY growth of 9%
- Revenues outside India at Rs 3.2 billion as against Rs 3 billion in Q2 FY03; YoY growth of 9%.
- Revenues in Europe at Rs 816 million as against Rs 299 million in Q2 FY03; YoY growth of 173%. This growth has been driven primarily by the launch of Ramipril in Europe API segment and performance of generic omeprazole in UK.
- Revenues from the US generics segment increased by 14% to Rs 993 million as against Rs 868 million in Q2 FY03, driven by the performance of fluoxetine and ibuprofen.
- Gross profit for the quarter increased by 11%, driven by the product and market mix; Gross profit margins remain consistent at about 54% of total revenues.

Generics

- Revenues in this segment at Rs 1.2 billion as against Rs 1 billion in Q2FY03; YoY growth of 22%, driven by the performance of our key products.
- North America contributed 80% to the total revenues while Europe contributed the balance.
- Fluoxetine capsules 40mg revenues in North America at Rs 502 million as against Rs 309 million in Q2 FY 03.
- Tizanidine tablets 2 & 4 mg contributed Rs 212 million to the revenues in North America as against Rs 337 million in Q2 FY03. Tizanidine was launched in Q2 FY03.
- Ibuprofen, launched in the US in January 2003, contributed Rs 51 million to the revenues.
- Revenues in Europe at Rs 244 million as against Rs 146 million in Q2 FY03, representing a growth of 67%. This growth was primarily driven by the performance of omeprazole, which contributed Rs 89 million in revenues. Omeprazole was launched in UK in Q3 FY03.
- New product launches include nefazodone in the US and simvastatin in UK.
- During the quarter, the Company filed 4 ANDAs including 3 Para IV certifications, taking the total ANDAs pending at the USFDA to 27.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 2 billion as against Rs 1.7 billion in Q2 FY03, a YoY increase of 16%, driven by the growth in Europe and India.
- Revenues outside India at Rs 1.4 billion as against Rs 1.2 billion in Q2 FY03, a YoY increase of 9%.
- Revenues from Europe increased to Rs 526 million as against Rs 122 million in Q2 FY03. This increase was driven by the launch of Ramipril, which contributed Rs 380 million in revenues.
- Revenues in India increased by 33% to Rs 660 million driven by volume growth in our key products.
- Revenues from North America declined to Rs 432 million as against Rs 692 million in Q2 FY03. This decline was primarily on account of decline in revenues from Nizatidine.
- The Company filed 1 US DMF during the quarter, taking the total filings to 44.

API - Geographic Mix*(in million)*

	Q2 FY04 \$	Q2 FY04 INR	As a %	Q2 FY03 \$	Q2 FY03 INR	as a %	Growth%
North America	9	432	21	15	692	40	(38)
India	14	660	33	11	495	28	33
Europe	11	526	26	3	122	7	332
ROW	9	403	20	9	430	25	(6)
TOTAL	44	2,021	100	38	1,739	100	16

Branded Formulations - International

- Revenues at Rs 576 million, a decrease of 15% over Q2 FY03. This decline was primarily on account of the decline in revenues from Russia.
- On account of the longer customs clearance process in Russia, the delivery of products to the customer was delayed, resulting in lower revenues. However we believe that this will get evened out in the coming quarter.

Branded Formulations – International: Revenues by Geography*(in million)*

Country	Q2 FY04 \$	Q2 FY04 INR	as a %	Q2 FY03 \$	Q2 FY03 INR	as a %	Growth %
Russia	8	360	63	10	439	65	(18)
Other CIS	2	102	18	2	95	14	6
Europe	0	20	3	0	19	3	8
Others	2	94	16	3	124	18	(24)
Total	13	576	100	15	678	100	(15)

Branded Formulations - India

- Revenues at Rs 1.4 billion as against Rs 1.3 billion in Q2 FY03, an increase of 4%.
- Driven by a sharp focus on our key brands, the top 10 brands with the exception of Ciprolet, collectively grew by 22% over Q2 FY03. This was however offset by the decline in revenues from our brands of Ciprolet and Becelac and discontinuation of certain brands as part of our brand rationalization exercise.
- As per September ORG MARG, the Company grew at a MAT of 4.1% compared with industry average growth rate of 4.5%.

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

Therapeutic Segment	Q2 FY04 \$	Q2 FY04 INR	as a %	Q2 FY03 \$	Q2 FY03 INR	as a %	Growth%
Gastro Intestinal	6	272	19	5	226	17	20
Pain Management	7	312	22	6	290	22	8
Cardiovascular	5	219	16	4	192	14	14
Anti Infectives	4	173	12	4	178	13	(3)
Natural	2	107	8	3	160	12	(33)
Women's Health Care	1	63	4	1	54	4	16
Diabetes	1	52	4	1	47	3	10
Dermatology	1	63	5	1	61	5	3
Specialty	2	84	6	2	93	7	(10)
Dental	1	50	4	1	43	3	16
Total	30	1,395	100	29	1,343	100	4

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

Brand	Q2 FY04 \$	Q2 FY04 INR	as a %	Q2 FY03 \$	Q2 FY03 INR	as a %	Growth%
Nise	6	292	21	5	236	18	24
Omez	4	170	12	3	130	10	31
Stamlo	2	76	6	1	65	5	16
Stamlo Beta	1	46	3	1	43	3	6
Ciprolet	1	44	3	2	73	5	(40)
Enam	1	42	3	1	38	3	10
Clamp	1	33	2	1	28	2	19
Gaity	1	31	2	1	26	2	19
Mintop	1	28	2	1	27	2	5
Atocor	1	26	2	0	14	1	91
Others	13	605	44	14	661	49	-9
Total	30	1,395	100	29	1,343	100	4

Other Businesses

- Revenues in the critical care & biotechnology segment at Rs 89 million as against Rs 113 million in Q2 FY03. The decline has been primarily on account of the closure of diagnostic operations in Q1 FY04.
- Revenues in the Custom Chemical Services segment at Rs 28 million as against Rs 17 million in Q2 FY03.

Income Statement Highlights

- Driven by the change in product and market mix, Gross profit for the quarter increased 11% over Q2 FY03 to Rs 2.9 billion. Gross profit margins remained consistent at about 54% of total revenues.
- R&D expenditure at Rs 490 million as against Rs 380 million in Q2FY03. As a %, R&D expenditure is at 9.1% of total revenues as against 7.7% in Q2 FY03. The increase in R&D expenditure is primarily on account of increase in the number of projects in the areas of Generics and Specialty and higher development activity in APIs.
- Selling, General & Administration (SG&A) expenses at Rs 1.5 billion as against Rs 1.2 billion in Q2 FY03. As a %, SG&A expenses are at 27% of total revenues as against 25% in Q2 FY03. As in the earlier quarters, legal & consultancy charges and personnel costs remain a significant factor in SG&A spending.
- During the quarter, gain under the head 'forex exchange gain/loss' was Rs 97 million as against a net loss of Rs 36 million in Q2 FY03. This includes a gain of Rs 53 million on account of mark to market of USD forward contracts.
- Other income (net) at Rs 169 million as against Rs 242 million in Q2 FY03.
- Depreciation for the quarter is at Rs 178 million as against Rs 144 million for Q2 FY03.
- Net income at Rs 929 million (17% of total revenues) as against Rs 926 million (19% of total revenues) in Q2FY03. This translates to a diluted EPS of Rs 12.14 as against Rs 12.10 in Q2 FY03.
- As at the end of the quarter, the cash and cash equivalents increased to Rs 7.6 billion or \$ 166 million.
- During the quarter, the company invested –
 - Rs 77 million in Aurigene Discovery Technologies and Aurigene Inc., bringing the total investments to Rs 927 million,
 - Rs 18 million in Brazil Farmaceutica Do Brasil Ltda, our wholly owned subsidiary,
 - Rs 29 million in Kunshan Rotam Reddy Pharmaceuticals, our joint venture in China,

- Rs 90 million as advance to Reddy Antilles, our wholly owned subsidiary in Netherlands and
- Rs 251 million for acquisition of land for future R&D initiatives
- During the quarter, the Company incurred normal capital expenditure of Rs 460 million.
- Days of Sales outstanding (DSO) are at 72 days as against 79 days as at the end of June 2003.
- Inventory Turnover in days of revenues remains unchanged at 55 days compared to the June 2003.

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