

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q3 FY 04 Financial Performance Review

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Q3 FY 04 USGAAP

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 45.55

UNAUDITED INCOME STATEMENT

Particulars	Q3 FY04			Q3 FY03			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues	113	5,138	100	95	4,348	100	18
Cost of revenues	54	2,464	48	43	1,981	46	24
Gross profit	59	2,674	52	52	2,367	54	13
Selling, General & Administrative Expenses	34	1,548	30	29	1,309	30	18
R&D Expenses	11	516	10	7	325	7	59
Amortization Expenses	2	97	2	2	101	2	(4)
Forex loss/ (gains)	(1)	(62)	(1)	1	36	1	NC
Total operating expenses	46	2,099	41	39	1,771	41	19
Operating income	13	575	11	13	596	14	(4)
Equity in loss of affiliates	0	13	0	0	20	0	(32)
Other expenses/(income) net	(4)	(162)	(3)	(4)	(167)	(4)	(3)
Income before income taxes	16	724	14	16	743	17	(3)
Income tax (benefit)/expense	3	132	3	2	82	2	61
Minority interest	0	0	-	0	0	-	-
Net income	13.0	592	12	14.5	661	15	(11)
DEPS	0.17	7.72		0.19	8.63		
Key Balance Sheet Items							
Cash and cash equivalents	127	5,781		151	6,872		
Investment securities	33	1,525		1.5	68		
Marketable securities	11	500		-	-		
Accounts receivable, net of allowances	91	4,150		84	3,817		
Inventories	69	3,136		59	2,693		
Property, plant and equipment, net	134	6,086		100	4,537		

NC: Not Comparable

Revenue Mix by Segment

	Q3 FY04 \$	Q3 FY04 INR	as a %	Q3 FY03 \$	Q3 FY03 INR	as a %	Growth %
APIs	43	1,943	38	32	1,475	34	32
India	12	538	28	9	401	27	34
International	31	1,405	72	24	1,074	73	31
Branded Formulations	43	1,958	38	38	1,718	40	14
India	23	1,046	53	23	1,039	60	1
International	20	912	47	15	679	40	34
Generics	23	1,057	21	22	998	23	6
Emerging Business	3	150	3	3	126	3	18
Custom Chemical Business	0	9	0	0	9	0	(4)
Others	0	21	0	0	22	0	(1)
Total	113	5,138	100	95	4,348	100	18

Revenue Mix by Geography

	Q3 FY04 \$	Q3 FY04 INR	as a %	Q3 FY03 \$	Q3 FY03 INR	as a %	Growth %
India	36	1,658	32	34	1,560	36	6
North America	30	1,356	26	29	1,327	31	2
Russia	14	622	12	10	447	10	39
Europe	17	779	15	7	323	7	142
Others	16	723	14	15	691	16	5
TOTAL	113	5,138	100	95	4,348	100	18

Key Highlights

- Revenues at Rs 5.1 billion as against Rs 4.3 billion in Q3 FY03; YoY growth of 18%
- Revenues outside India at Rs 3.5 billion as against Rs 2.8 billion in Q3 FY03; YoY growth of 25%; Contributes 68% to total revenues as against 64% in Q3 FY03.
- Revenues in Europe at Rs 779 million as against Rs 323 million in Q3 FY03; YoY growth of 142%. This growth has been driven primarily by the sales of Ramipril in Europe API segment, which recorded sales of Rs 465 million.
- Revenues from Russia increased by 39% to Rs 662 million as against Rs 447 million in Q3 FY03; Contributes 12% to total company revenues as against 10% in Q3 FY03.
- In the API segment, North America and Europe together contribute a record 53% to the segment revenues.

- Gross profit for the quarter increased by 13%, driven by the product and market mix; Gross profit margins at about 52% of total revenues.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 1.9 billion as against Rs 1.5 billion in Q3 FY03, a YoY increase of 32%; Growth driven by Europe and India.
- Revenues outside India at Rs 1.4 billion as against Rs 1 billion in Q3 FY03, a YoY increase of 31%.
- North America and Europe together contribute a record 53% to the total revenues of the APIs segment.
- Revenues from Europe increased to Rs 534 million as against Rs 59 million in Q3 FY03. This increase was driven by the sales of Ramipril, which contributed Rs 465 million in revenues.
- Revenues in India increased by 34% to Rs 538 million driven by volume growth in our key products.
- Revenues from North America declined to Rs 490 million as against Rs 589 million in Q3 FY03. This decline was primarily on account of decline in revenues from Nizatidine.
- The Company filed 6 US DMF during the quarter, taking the total filings to 50.

API - Geographic Mix

	Q3 FY04 \$	Q3 FY04 INR	As a %	Q3 FY03 \$	Q3 FY03 INR	as a %	Growth%
North America	11	490	25	13	589	40	(17)
India	12	538	28	9	401	27	34
Europe	12	534	27	1	59	4	799
ROW	8	381	20	9	426	29	(11)
TOTAL	43	1,943	100	32	1,475	100	32

Generics

- Revenues in this segment at Rs 1 billion as against Rs 998 million in Q3 FY03; YoY growth of 6%, driven primarily by the growth in North America.
- Revenues from North America recorded a growth of 16% to Rs 856 million; Contributed 81% to the segment revenues.
- Revenues from fluoxetine capsules 40mg in North America increased by Rs 63 million to Rs 420 million as against Rs 357 million in Q3 FY03.

- Revenues from tizanidine tablets 2 & 4 mg in North America declined by Rs 89 million to Rs 134 million as against Rs 223 million in Q3 FY03. Tizanidine was launched in Q3 FY03.
- New products launched in North America in the last 12 months including Ibuprofen and Nefazodone contributed Rs 102 million to the segment revenues.
- Revenues from Europe declined to Rs 198 million from Rs 247 million in Q3 FY03. This decrease was largely on account of the decline in revenues from Omeprazole due to increased competition. Omeprazole was launched in UK in Q3 FY03.
- During the quarter, the Company submitted 4 ANDAs with Para IV certifications, taking the total ANDAs pending at the USFDA to 31.

Branded Formulations - International

- Revenues increased by 34% to Rs 912 million over Q3 FY03; Growth driven primarily by Russia; International revenues contribute a record 47% to Branded Formulations segment
- Revenues from Russia increased by 40% to Rs 615 million as against Rs 438 million in Q3 FY03. The increase was, in part, driven by sale of goods, which were pending customs clearance as of September 30, 2003 and were delivered to customers during the third quarter.
- Amongst other markets, Myanmar, Sri Lanka, Venezuela and Vietnam recorded high sales growth in absolute terms.

Branded Formulations – International: Revenues by Geography

Country	Q3 FY04 \$	Q3 FY04 INR	as a %	Q3 FY03 \$	Q3 FY03 INR	as a %	Growth %
Russia	14	615	31	10	438	25	40
Other CIS	3	134	7	3	121	7	11
Europe	1	34	2	0.3	15	1	128
ROW	3	129	7	2	105	6	23
Total	20	912	47	15	679	40	34

ROW: Rest of the World

Branded Formulations - India

- Revenues remained flat at about Rs 1 billion compared to Q3 FY03.
- Growth in key brands of Omez, Stamlo Beta and Gaity was offset by the decline in revenues from Nise and Ciprolet. In addition, year on year growth comparisons are also impacted due to the product rationalization program carried out earlier this fiscal.

Branded Formulations – India: Revenues by Therapies

Therapeutic Segment	Q3 FY04 \$	Q3 FY04 INR	as a %	Q3 FY03 \$	Q3 FY03 INR	as a %	Growth%
Gastro Intestinal	5	222	21	4	191	18	16
Pain Management	2	88	9	4	185	18	(52)
Cardiovascular	4	202	20	4	183	18	10
Anti Infectives	3	125	12	2	110	11	13
Natural	2	99	9	3	115	11	(14)
Women's Health Care	1	56	5	1	40	4	41
Diabetes	1	46	4	1	42	4	9
Dermatology	1	64	6	1	48	5	34
Specialty	2	102	10	2	95	9	7
Dental	1	42	4	1	30	2	41
Total	23	1,046	100	23	1,039	100	1

Branded Formulations – India: Revenues by Key brands

Brand	Q3 FY04 \$	Q3 FY04 INR	as a %	Q3 FY03 \$	Q3 FY03 INR	as a %	Growth%
Nise	1.6	71	7	3.2	146	14	(51)
Omez	3.4	154	15	2.7	123	12	26
Stamlo	1.4	64	6	1.4	66	6	(2)
Stamlo Beta	1.0	44	4	0.9	39	4	12
Enam	0.8	36	3	0.8	38	4	(4)
Ciprolet	0.7	30	3	0.7	34	3	(12)
Gaity	0.5	25	2	0.5	22	2	10
Clamp	0.6	28	3	0.5	21	2	34
Mintop	0.5	25	2	0.4	20	2	22
Antoxid	0.5	21	2	0.5	22	2	(1)
Others	12.0	548	52	11.2	508	49	8
Total	23	1,046	100	23	1,039	100	1

Other Businesses

- Revenues from the oncology & biotechnology segment increased to Rs 150 million from Rs 126 million in Q3 FY03. This increase was driven primarily by the sales in Brazil, which contributed Rs 60 million in revenues. This was however, offset by the discontinuance of the trading operations in the diagnostics business effective April 1, 2003, which contributed Rs 34 million in revenues in Q3 FY03.
- Revenues from the Custom Chemical Services segment remain unchanged at Rs 9 million.

Income Statement Highlights

- Driven by the change in product and market mix, Gross profit for the quarter increased 13% over Q3 FY03 to Rs 2.7 billion. Gross profit margins were at about 52% of total revenues.
- R&D expenditure increased by 59% to Rs 516 million as against Rs 325 million in Q3 FY03. As a %, R&D expenditure is at 10% of total revenues as against 7.5% in Q3 FY03. The increase in R&D expenditure is primarily on account of increase in R&D activity in Generics, Specialty, Drug Discovery and CCS.
- Selling, General & Administration (SG&A) expenses at Rs 1.5 billion as against Rs 1.3 billion in Q3 FY03. As a %, SG&A expenses are at 30% of total revenues in Q3 FY04. 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 62 million as against a net loss of Rs 36 million in Q3 FY03.
- Other income (net) at Rs 162 million as against Rs 167 million in Q3 FY03.
- Depreciation for the quarter is at Rs 188 million as against Rs 155 million for Q3 FY03.
- Net income at Rs 592 million (12% of total revenues) as against Rs 661 million (15% of total revenues) in Q3 FY03. This translates to a diluted EPS of Rs 7.73 as against Rs 8.63 in Q3 FY03.
- As at the end of the quarter, the Company had cash reserves of Rs 7.8 billion comprising Rs 5.8 billion in cash and cash equivalents and Rs 2 billion in non-convertible debentures and debt funds.
- During the quarter, the Company invested Rs 1.5 billion in investment securities and Rs 500 million in marketable securities.
- During the quarter, the Company's key investments included –
 - Rs 47 million in Aurigene Discovery Technologies and Aurigene Inc., bringing the total investments to Rs 965 million,

- Rs 44 million in Farmaceutica Do Brasil Ltda, our wholly owned subsidiary in Brazil,
- Rs 32 million in Kunshan Rotam Reddy Pharmaceuticals, our joint venture in China,
- Rs 114 million for the acquisition of 13.19% equity stake held by minority shareholders in Reddy US Therapeutics Inc. (RUSTI). Pursuant to the acquisition, RUSTI became a wholly-owned subsidiary of Reddy Antilles, Netherlands, a step down subsidiary of the Company
- During the quarter, the Company incurred normal capital expenditure of Rs 641 million including Rs 152 million in the Goa formulations facility.
- Days of Sales outstanding (DSO) at 73 days as against 72 days as at the end of September 2003.
- Inventory Turnover in days of revenues remains unchanged at 55 days compared to the September 2003.

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