

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q2 FY09 Financial Performance Review

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Q2 FY09 IFRS

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

Particulars	Index	Q2 FY09			Q2 FY08			Growth %
		(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Revenue	A	348	16,151	100	268	12,451	100	30
Cost of revenues	B	176	8,187	51	133	6,170	50	33
Gross profit	C = A-B	171	7,964	49	135	6,282	50	27
Operating Expenses								
Selling, general & administrative expenses	D	104	4,814	30	86	4,012	32	20
Research and development expenses, net	E	18	825	5	17	810	7	2
Amortization Expenses	F	10	472	3	9	406	3	16
Other operating expenses	G	0	0	0	1	24	0	(99)
Other operating income	H	(3)	(142)	(1)	(2)	(93)	(1)	53
Total Operating Expenses	I = D+E+F+G+H	128	5,968	37	111	5,158	41	16
Results from operating activities	J = C-I	43	1,995	12	24	1,123	9	78
Finance Costs, net								
Finance income ^(a)	K	(2)	(93)	(1)	(10)	(478)	(4)	(81)
Finance expenses ^(b)	L	12	575	4	4	176	1	227
Net finance costs	M = K+L	10	482	3	(6)	(302)	(2)	-
Share of profit of equity accounted investees	N	0	2	0	0	3	0	(49)
Profit before income tax	O = J-M+N	33	1,515	9	31	1,428	11	6
Income tax (expense)/gain ^(c)	P	(7)	(303)	(2)	24	1,099	9	-
Profit for the year	Q = O-P	26	1,212	8	54	2,527	20	(52)
Attributable to :								
Equity holders of the company	R	26	1,212	8	54	2,528	20	(52)
Minority interest	S	-	-	0	(0)	(1)	(0)	-
Profit for the year	T = R+S	26	1,212	8	54	2,527	20	(52)
Weighted average no. of shares o/s	U		168.9			168.6		
Diluted EPS	V = R/U	0.2	7.2		0.3	15.0		
Exchange rate			46.45			46.45		

Notes:

- (a) Includes forex gain of Rs. 259 million in Q2 FY08.
- (b) Includes forex loss of Rs. 296 million in Q2 FY09.
- (c) Includes net tax benefit of Rs. 1,506 million in Q2 FY08.

Q2 Convenience Translation Rate : Rs. 46.45
Q2 Average Rate : Rs. 43.78

Key Balance Sheet Items

(in millions)

Particulars	As on 30th Sep 08		As on 30th Jun 08	
	(\$)	(Rs.)	(\$)	(Rs.)
Cash and cash equivalents	110	5,120	80	3,724
Investments (current & non current)	29	1,329	70	3,268
Trade and other receivables	226	10,480	193	8,973
Inventories	331	15,376	281	13,042
Property, plant and equipment	435	20,219	415	19,296
Loans and borrowings (current & non current)	481	22,360	410	19,036
Trade accounts payable	175	8,108	165	7,683
Total Equity	1,080	50,147	1,068	49,595

Revenue Mix by Segment

(in millions)

	Q2 FY09 \$	Q2 FY09 INR	as a %	Q2 FY08 \$	Q2 FY08 INR	as a %	Growth %
Global Generics	240	11,160	69	172	7,989	64	40
North America	69	3,188	29	45	2,075	26	54
Europe	69	3,184	29	47	2,196	27	45
India	48	2,237	20	44	2,053	26	9
Russia & Other CIS	40	1,855	17	28	1,302	16	43
Others	15	696	6	8	363	5	92
PSAI (Pharmaceutical Services & Active Ingredients)	104	4,828	30	95	4,400	35	10
North America	24	1,092	23	18	839	19	30
Europe	25	1,176	24	28	1,320	30	(11)
India	14	656	14	15	703	16	(7)
Others	41	1,903	39	33	1,539	35	24
Innovative Products	1	48	0	0	8	0	526
Others	2	116	1	1	54	0	114
Total	348	16,152	100	268	12,451	100	30

Revenue Mix by Geography

(in millions)

	Q2 FY09 \$	Q2 FY09 INR	as a %	Q2 FY08 \$	Q2 FY08 INR	as a %	Growth %
North America	93	4,329	27	63	2,914	23	49
Europe	94	4,360	27	76	3,516	28	24
India	65	3,009	19	61	2,818	23	7
Russia & Other CIS	40	1,855	11	28	1,302	10	43
Others	56	2,599	16	41	1,902	15	37
Total	348	16,152	100	268	12,451	100	30

Business Highlights

- o Overall revenues at Rs. 16.2 billion (\$348 million) in Q2 FY09 as against Rs. 12.5 billion (\$268 million) in Q2 FY08, representing a growth of 30%.
- o Operating income at Rs. 2 billion (\$43 million) in Q2 FY09 as against Rs. 1.1 billion (\$24 million) in Q2 FY08, representing a growth of 78%.
- o EBITDA at Rs. 2.7 billion (\$59 million) in Q2 FY09 as against Rs. 2.2 billion (\$47 million) in Q2 FY08, representing a growth of 25%.
- o Revenues from Global Generics business at Rs. 11.2 billion (\$240 million) in Q2 FY09 as against Rs. 8.0 billion (\$172 million) in Q2 FY08. YoY growth of 40% driven by key markets of North America, Russia and Germany.
 - o Revenue growth of 54% in North America driven by a combination of volume growth in key existing products, new product launches in the last 12 months and acquisition of Shreveport facility.
 - o Revenue growth of 68% in Germany; growth driven by volume growth and one time sales of in-licensed vaccine.
 - o Revenue growth of 36% in Russia driven by key brands of Nise, Ketorol and Cetrine.
- o Revenues from Pharmaceutical Services & Active Ingredients (PSAI) increase by 10% to Rs. 4.8 billion (\$104 million) in Q2 FY09 as against Rs. 4.4 billion (\$95 million) in Q2 FY08.
- o During the quarter, the company launched 35 new generic products, filed 24 new generic product registrations and filed 21 DMFs globally.

Global Generics

- o Revenues from Global Generics business at Rs. 11.2 billion (\$240 million) in Q2 FY09 as against Rs. 8.0 billion (\$172 million) in Q2 FY08. YoY growth of 40% driven by key markets of North America, Russia and Germany.
- o Revenues from North America at Rs. 3.2 billion (\$69 million) in Q2 FY09 as against Rs. 2.1 billion (\$45 million) in Q2 FY08.
 - o YoY growth of 54% driven by a combination of volume growth in key existing products, new product launches in the last 12 months and acquisition of Shreveport facility.
 - o Revenue from Shreveport facility at Rs. 428 million (\$9 million) in Q2 FY09.
 - o 3 new products launched in Q2 FY09.
 - o During the quarter, the Company filed 2 ANDAs taking the total filings to 128. Total of 66 ANDAs pending at the USFDA addressing innovator sales of \$48 billion as per IMS December 2007.

- o Revenues from Europe at Rs. 3.2 billion (\$69 million) in Q2 FY09 as against Rs. 2.2 billion (\$47 million) in Q2 FY08.
 - o Revenues from betapharm increase by 68% to Rs. 2.8 billion (\$60 million) in Q2 FY09 from Rs. 1.7 billion (\$36 million) in Q2 FY08. This growth was driven by the contribution from the launch of a seasonal vaccine (in-licensed) as well as volume growth in existing products.
 - o Revenues from Rest of Europe at Rs. 392 million (\$8 million) in Q2 FY09 from Rs. 426 million (\$9 million) in Q2 FY08.
 - o During the quarter, the company launched 9 new products and filed 12 dossiers across Europe.
- o Revenues from Russia & Other CIS markets at Rs. 1.9 billion (\$40 million) in Q2 FY09 as against Rs. 1.3 billion (\$28 million) in Q2 FY08.
 - o Revenues in Russia increase to Rs. 1.3 billion (\$29 million) in Q2 FY09 as against Rs. 1 billion (\$22 million) in Q2 FY08. YoY growth of 36% driven by key brands of Nise, Ketorol and Cetrine.
 - o Dr. Reddy's growth rate at 36.2% in line with the industry growth rate of 36.3%. (Source: Pharmexpert MAT Jun 08)
 - o Combined revenues from OTC & Hospital segment contributed 28% to total revenues in Q2 FY09.
 - o Revenues in Other CIS markets increase to Rs. 525 million (\$11 million) in Q2 FY09 as against Rs. 322 million (\$7 million) in Q2 FY08. YoY growth of 63% contributed mainly by Kazakhstan.
- o Revenues in India increase by 9% to Rs. 2.2 billion in Q2 FY09 from Rs. 2.1 billion in Q2 FY08. Growth was primarily driven by brands of Omez-DSR, Atocor, Razo, Razo D and Stamlo.
 - o Foray into the inhaler segment with 4 products
 - o New product launches in the last 36 months contribute 22% to total revenues in Q2 FY09.
 - o Fastest growing company in the dermatology segment. (Source: IMS ORG MAT Aug 08)

Pharmaceutical Services and Active Ingredients

- o Revenues from this segment increase to Rs. 4.8 billion (\$104 million) in Q2 FY09 as against Rs. 4.4 billion (\$95 million) in Q2 FY08; YoY growth of 10% driven by growth in North America and RoW markets.
- o Revenue from the business & facility acquired from Dow Pharma at Rs. 298 million (\$6 million) in Q2 FY09.

Income Statement Highlights:

- o Gross profit increase by 27% to Rs. 8.0 billion in Q2 FY09 as against Rs. 6.3 billion in Q2 FY08. Gross profit margins on total revenues at 49% as against 50% in Q2 FY08.
- o Selling, General & Administration (SG&A) expenses increase to Rs. 4.8 billion (30% of revenues) in Q2 FY09 from Rs. 4.0 billion in Q2 FY08 (32% of revenues). SG&A expenses recorded a YoY growth of 20% lower than the revenue growth of 30%.
- o R&D investments at 5% of total revenues in Q2 FY09 as against 7% in Q2 FY08.
- o Amortization expenses are at Rs. 472 million as compared to Rs. 406 million in Q2 FY08. The YoY increase of Rs. 66 million and the sequential increase of Rs. 95 million largely relate to amortization of intangibles in the recently acquired entities and a one time charge on account of early termination of Salutas contract in betapharm.
- o Finance costs (net) are at Rs. 482 million in Q2 FY09 as against Finance income (net) at Rs. 302 million in Q2 FY08. The variance is mainly on account of :
 - o Net forex loss of Rs. 296 million in Q2 FY09 as against net forex gain of Rs. 259 million in Q2 FY08
 - o Net interest expense of Rs. 229 million in Q2 FY09 as against net interest income of Rs. 42 million in Q2 FY08.
- o Net income at Rs. 1.2 billion (8% of total revenues) as against Rs. 2.5 billion (20% of total revenues) in Q2 FY08. This translates to a diluted EPS of Rs. 7.2 in Q2 FY09 as against Rs. 15.0 in Q2 FY08.
 - o Q2 FY08 includes net tax benefit of Rs. 1,506 million.
- o Capital expenditure for H1 FY09 is at Rs. 2,570 million.

Appendix 1 : Q1 FY09 IFRS Financial Snapshot

All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 42.93

Dr. Reddy's Laboratories Limited and Subsidiaries

Unaudited Condensed Consolidated Interim Income Statement

Particulars	Index	Q1 FY09			Q1 FY08			Growth %
		(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Revenue	A	350	15,038	100	279	11,983	100	25
Cost of revenues	B	176	7,543	50	138	5,914	49	28
Gross profit	C = A-B	175	7,494	50	141	6,069	51	23
Operating Expenses								
Selling, general & administrative expenses	D	110	4,709	31	75	3,235	27	46
Research and development expenses, net	E	24	1,050	7	19	806	7	30
Amortization Expenses	F	9	377	3	8	347	3	9
Other operating expenses	G	0	1	0	0	2	0	(77)
Other operating income ^(a)	H	(6)	(274)	(2)	(2)	(85)	(1)	223
Total Operating Expenses	I = D+E+F+G+H	137	5,862	39	100	4,305	36	36
Results from operating activities	J = C-I	38	1,633	11	41	1,764	15	(7)
Finance Costs, net								
Finance income ^(b)	K	(7)	(320)	(2)	(13)	(577)	(5)	(45)
Finance expenses	L	6	243	2	10	418	3	(42)
Net finance costs	M = K+L	(2)	(77)	(1)	(4)	(158)	(1)	(51)
Share of profit of equity accounted investees	N	0	0	0	(0)	(4)	(0)	-
Profit before income tax	O = J-M+N	40	1,710	11	45	1,918	16	(11)
Income tax expense	P	(5)	(233)	(2)	(7)	(322)	(3)	(28)
Profit for the year	Q = O-P	34	1,477	10	37	1,597	13	(7)
Attributable to :								
Equity holders of the company	R	34	1,477	10	37	1,600	13	(8)
Minority interest	S	-	-	0	(0)	(3)	(0)	-
Profit for the year	T = R+S	34	1,477	10	37	1,597	13	(7)
Weighted average no. of shares o/s	U		168.9			168.7		
Diluted EPS	V = R/U	0.2	8.7		0.2	9.5		
Exchange rate			42.93			42.93		

Notes:

- (a) Includes negative goodwill of Rs. 157 million in Q1 FY09 on account of Dow acquisition.
- (b) Includes forex gain of Rs. 176 million in Q1 FY09 as against forex gain of Rs. 299 million in Q2 FY08.

Appendix 2 : Comparison between USGAAP and IFRS

- o **Starting Q2 FY09 onwards, in keeping with best in class reporting, the company's financials have changed from USGAAP to IFRS. This makes Dr. Reddy's the first Indian pharmaceutical company to adopt IFRS reporting.**
 - o There is no significant difference in net profit between IFRS and USGAAP for Q2 FY09.
 - o The accounting adjustments for FY07 and FY08 resulting from the transition from USGAAP to IFRS have been incorporated in the opening equity line item as on 1st April 2007 and 1st April 2008 respectively.
 - o During Q3 FY08, the company recorded accelerated amortization of product related intangibles amounting to Rs 240 crores as per USGAAP. This has increased under IFRS to Rs 295 crores. During FY07, we impaired beta brand-value by Rs 60 crores as per USGAAP. Under the IFRS, the assessment is examined at a Gross Business level and has thus been restored.

	Rs Crs	Rs Crs
Incremental change in Retained Earnings as on 1 April 2007		+ 101
Incremental change in Retained Earnings as on 1 April 2008	[+101 -83]	+18
Incremental change in Retained Earnings as on 30 September 2008	[18 + 10]	+28

Rs Crs	Profit before Tax			Profit after Tax		
	USGAAP	IFRS	+ / -	USGAAP	IFRS	+ / -
Q1 FY08	200	192	(8)	183	160	(23)
Q2 FY08	142	143	+ 1	267	253	(14)
Q3 FY08	(123)	(174)	(51)	(85)	(121)	(36)
Q4 FY08	125	125	-	103	93	(10)
FY08	344	286	(58)	468	385	(83)

Rs Crs	Profit before Tax			Profit after Tax		
	USGAAP	IFRS	+ / -	USGAAP	IFRS	+ / -
Q1 FY09	159	171	+12	135	148	+13
Q2 FY09	150	151	+ 1	124	121	(3)

Key Differences in Income Statement	FY07	FY08	Q1 FY09
Impairment	+56	(52)	-
Deferred Tax	+45	(26)	-
Dow Acquisition			+9

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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