

# **Dr Reddy's Laboratories Ltd.**

NYSE:RDY

## **Q3 FY09 Financial Performance Review**

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

Particulars	Index	Q3 FY09			Q3 FY08			Growth %
		(\$)	(Rs.)	%	(\$)	(Rs.)	%	
<b>Revenue</b>	A	<b>379</b>	<b>18,401</b>	<b>100</b>	<b>254</b>	<b>12,319</b>	<b>100</b>	<b>49</b>
Cost of revenues	B	167	8,129	44	129	6,285	51	29
<b>Gross profit</b>	C = A-B	<b>211</b>	<b>10,272</b>	<b>56</b>	<b>124</b>	<b>6,034</b>	<b>49</b>	<b>70</b>
<b>Operating Expenses</b>								
Selling, general & administrative expenses	D	104	5,043	27	77	3,746	30	35
Research and development expenses, net	E	21	1,027	6	18	894	7	15
Amortization Expenses	F	7	339	2	8	375	3	(10)
Write down of intangible assets	G	-	-	0	59	2,883	23	-
Other (income)/expenses, net	H	17	849	5	(2)	(101)	(1)	-
<b>Total Operating Expenses</b>	I = D+E+F+G+H	<b>149</b>	<b>7,258</b>	<b>39</b>	<b>160</b>	<b>7,797</b>	<b>63</b>	<b>(7)</b>
<b>Results from operating activities</b>	J = C-I	<b>62</b>	<b>3,014</b>	<b>16</b>	<b>(36)</b>	<b>(1,763)</b>	<b>(14)</b>	<b>-</b>
Finance income <sup>(a)</sup>	K	(2)	(89)	(0)	(5)	(257)	(2)	(65)
Finance expenses <sup>(b)</sup>	L	16	788	4	5	234	2	237
<b>Finance income, net</b>	M = K+L	<b>14</b>	<b>699</b>	<b>4</b>	<b>(0)</b>	<b>(23)</b>	<b>(0)</b>	<b>-</b>
Share of profit/(loss) of equity accounted investees	N	0	8	0	0	3	0	167
<b>Profit before income tax</b>	O = J-M+N	<b>48</b>	<b>2,323</b>	<b>13</b>	<b>(36)</b>	<b>(1,737)</b>	<b>(14)</b>	<b>-</b>
Income tax expense	P	(8)	(399)	(2)	11	524	4	-
<b>Profit for the period</b>	Q = O+P	<b>40</b>	<b>1,924</b>	<b>10</b>	<b>(25)</b>	<b>(1,213)</b>	<b>(10)</b>	<b>-</b>
<b>Attributable to :</b>								
Equity holders of the company	R	40	1,924	10	(25)	(1,207)	(10)	-
Minority interest	S	-	-	0	(0)	(6)	(0)	-
<b>Profit for the period</b>	T = R+S	<b>40</b>	<b>1,924</b>	<b>10</b>	<b>(25)</b>	<b>(1,213)</b>	<b>(10)</b>	<b>-</b>
Weighted average no. of shares o/s	U		168.4			168.1		
<b>Diluted EPS</b>	V = R/U	<b>0.2</b>	<b>11.4</b>		<b>(0.1)</b>	<b>(7.2)</b>		<b>-</b>
Exchange rate			48.58			48.58		

**Notes:**

- (a) Includes forex gain of Rs. 87 million in Q3 FY08.
- (b) Includes forex loss of Rs. 493 million in Q3 FY09.

## Key Balance Sheet Items

(in millions)

Particulars	As on 31st Dec 08		As on 30th Sep 08	
	(\$)	(Rs.)	(\$)	(Rs.)
Cash and cash equivalents	78	3,783	105	5,120
Investments (current & non current)	0	16	27	1,329
Trade and other receivables	266	12,910	214	10,375
Inventories	312	15,157	317	15,377
Property, plant and equipment	426	20,672	416	20,219
Loans and borrowings (current & non current)	458	22,264	457	22,189
Trade accounts payable	138	6,716	169	8,194
Total Equity	1,067	51,849	1,034	50,228

## Revenue Mix by Segment

(in millions)

	Q3 FY09 \$	Q3 FY09 INR	as a %	Q3 FY08 \$	Q3 FY08 INR	as a %	Growth %
<b>Global Generics</b>	<b>282</b>	<b>13,683</b>	<b>74</b>	<b>165</b>	<b>8,027</b>	<b>65</b>	<b>70</b>
North America	137	6,652	49	36	1,725	21	286
Europe	52	2,505	18	53	2,558	32	(2)
India	40	1,967	14	41	1,992	25	(1)
Russia & Other CIS	41	2,006	15	31	1,503	19	33
Others	11	553	4	5	250	3	121
<b>PSAI (Pharmaceutical Services &amp; Active Ingredients)</b>	<b>92</b>	<b>4,457</b>	<b>24</b>	<b>87</b>	<b>4,215</b>	<b>34</b>	<b>6</b>
North America	18	865	19	26	1,253	30	(31)
Europe	36	1,752	39	31	1,490	35	18
India	9	432	10	12	566	13	(24)
Others	29	1,408	32	19	906	21	56
<b>Proprietary Products</b>	<b>1</b>	<b>69</b>	<b>0</b>	<b>0</b>	<b>9</b>	<b>0</b>	<b>628</b>
<b>Others</b>	<b>4</b>	<b>192</b>	<b>1</b>	<b>1</b>	<b>68</b>	<b>1</b>	<b>181</b>
<b>Total</b>	<b>379</b>	<b>18,401</b>	<b>100</b>	<b>254</b>	<b>12,319</b>	<b>100</b>	<b>49</b>

## Revenue Mix by Geography

(in millions)

	Q3 FY09 \$	Q3 FY09 INR	as a %	Q3 FY08 \$	Q3 FY08 INR	as a %	Growth %
North America	156	7,585	41	62	2,978	24	155
Europe	88	4,257	23	83	4,048	33	5
India	53	2,591	14	54	2,635	21	(2)
Russia & Other CIS	41	2,006	11	31	1,503	12	33
Others	41	1,962	11	24	1,155	9	70
<b>Total</b>	<b>379</b>	<b>18,401</b>	<b>100</b>	<b>254</b>	<b>12,319</b>	<b>100</b>	<b>49</b>

## Business Highlights

- o Overall revenues at Rs. 18.4 billion (\$379 million) in Q3 FY09 as against Rs. 12.3 billion (\$254 million) in Q3 FY08, representing a growth of 49%.
  - o The growth was majorly driven by the successful launch of the authorized generic version of GlaxoSmithKline's Imitrex® (generic version: sumatriptan succinate), in late November 2008.
  - o Excluding revenues from Sumatriptan, the YoY growth is at 21%.
- o Operating income at Rs. 3 billion (\$62 million) in Q3 FY09 as against Rs. 1.1 billion (\$23 million) in Q3 FY08 after adjusting for the one-time write down of intangibles.
- o EBITDA at Rs. 3.5 billion (\$71 million) in Q3 FY09 as against Rs. 2.2 billion (\$45 million) in Q3 FY08, representing a growth of 59%.
- o Revenues from Global Generics business at Rs. 13.7 billion (\$282 million) in Q3 FY09 as against Rs. 8.0 billion (\$165 million) in Q3 FY08. YoY growth of 70% driven by sumatriptan and key markets of North America and Russia.
  - o Excluding revenues from Sumatriptan, the growth of 80% in North America was driven by volume growth in key existing products and acquisition of the Shreveport facility.
  - o Revenue growth of 44% in Russia driven by key brands of Omez, Nise, Ketorol and Cetrine.
- o Revenues from Pharmaceutical Services & Active Ingredients (PSAI) increase by 6% to Rs. 4.5 billion (\$92 million) in Q3 FY09 as against Rs. 4.2 billion (\$87 million) in Q3 FY08.
- o During the quarter, the company launched 26 new generic products, filed 32 new generic product registrations and filed 6 DMFs globally.

## Global Generics

- o Revenues from Global Generics business at Rs. 13.7 billion (\$282 million) in Q3 FY09 as against Rs. 8.0 billion (\$165 million) in Q3 FY08. YoY growth of 70% driven by launch of sumatriptan and the key markets of North America and Russia.
- o Revenues from North America at Rs. 6.7 billion (\$137 million) in Q3 FY09 as against Rs. 1.7 billion (\$36 million) in Q3 FY08.
  - o Excluding revenues from Sumatriptan, the growth of 80% in North America was driven by high volume growth in Top products and acquisition of Shreveport facility.
  - o Revenue from Shreveport facility at Rs. 409 million (\$8 million) in Q3 FY09.
  - o 3 new products launched in Q3 FY09.
  - o During the quarter, the Company filed 5 ANDAs taking the total filings to 133. Total of 69 ANDAs pending at the USFDA addressing innovator sales of \$47 billion as per IMS December 2007.

- o Revenues from Europe at Rs. 2.5 billion (\$52 million) in Q3 FY09 as against Rs. 2.6 billion (\$53 million) in Q3 FY08.
  - o Revenues from betapharm marginally down by 2% to Rs. 2.0 billion (\$41 million) in Q3 FY09 from Rs. 2.0 billion (\$42 million) in Q3 FY08. This decline was on account of destocking due to the AOK tender and olanzapine withdrawal from market.
    - o Volume growth in existing products offset by price declines
    - o Betapharm volume growth of 15% as against market volume degrowth of 3.3%.  
(Source: NVI Report Oct-Nov 2008)
  - o Revenues from Rest of Europe at Rs. 501 million (\$10 million) in Q3 FY09 from Rs. 500 million (\$10 million) in Q3 FY08.
  - o During the quarter, the company launched 2 new products and filed 4 dossiers across Europe.
- o Revenues from Russia & Other CIS markets at Rs. 2.0 billion (\$41 million) in Q3 FY09 as against Rs. 1.5 billion (\$31 million) in Q3 FY08.
  - o Revenues in Russia increase to Rs. 1.6 billion (\$32 million) in Q3 FY09 as against Rs. 1.1 billion (\$23 million) in Q3 FY08. YoY growth of 44% driven by key brands of Omez, Nise, Ketorol and Cetrine.
    - o Dr. Reddy's volume growth at 16% as against the industry volume degrowth of 1%.  
(Source: Pharmexpert Apr-Nov 08)
    - o Combined revenues from OTC & Hospital segment contribute 26% to total revenues.
  - o Revenues in Other CIS markets increase to Rs. 434 million (\$9 million) in Q3 FY09 as against Rs. 409 million (\$8 million) in Q3 FY08. YoY growth of 6%.
- o Revenues in India remained flat at Rs. 2.0 billion in Q3 FY09.
  - o The temporary slowdown in India is on account of delay in launch of new products and a change in our supply chain model to a replenishment based model.
  - o 10 new products launched during the quarter.
  - o New products in the last 36 months contribute 23% to total revenues in Q3 FY09.

### **Pharmaceutical Services and Active Ingredients**

- o Revenues from this segment increase to Rs. 4.5 billion (\$92 million) in Q3 FY09 as against Rs. 4.2 billion (\$87 million) in Q3 FY08; YoY growth of 6% driven by growth in Europe and RoW markets.
- o Revenue from the business & facility acquired from Dow Pharma at Rs. 224 million (\$5 million) in Q3 FY09.

## Income Statement Highlights:

- o Gross profit increase by 70% to Rs. 10.3 billion in Q3 FY09 as against Rs. 6.0 billion in Q3 FY08. Gross profit margins on total revenues at 56% as against 49% in Q3 FY08, largely driven by higher margins on sumatriptan.
- o Selling, General & Administration (SG&A) expenses increase to Rs. 5.0 billion (27% of revenues) in Q3 FY09 from Rs. 3.7 billion in Q3 FY08 (30% of revenues).
  - o The absolute YoY increase was majorly on account of impact of additional costs on account of the recent acquisitions and the scaling up of our Specialty business in the US.
  - o Sequentially SG&A has increased. However if we were to exclude the impact of currency on expenses outside India, the base SG&A remains the same.
- o Other operating expenses include provision of Rs. 969 million as damages on account of the German court upholding the validity of the olanzapine patent.
- o R&D investments at 6% of total revenues in Q3 FY09 as against 7% in Q3 FY08.
- o Amortization expenses at Rs. 339 million in Q3 FY09 as against Rs. 375 million in Q3 FY08. This reduction is on account of lower intangible base of betapharm due to the accelerated impairment charge taken in Q3 FY08.
- o Finance costs (net) are at Rs. 699 million in Q3 FY09 as against Finance income (net) at Rs. 23 million in Q3 FY08. The increase is mainly on account of :
  - o Net forex loss of Rs. 493 million in Q3 FY09 as against net forex gain of Rs. 87 million in Q3 FY08
  - o Net interest expense of Rs. 215 million in Q3 FY09 as against net interest expense of Rs. 88 million in Q3 FY08.
- o Net income at Rs. 1.9 billion (10% of total revenues). This translates to a diluted EPS of Rs. 11.4 (\$0.2) in Q3 FY09, representing a growth of 150% over Q3 FY08, after adjusting the one-time write down of intangibles, net of tax.
- o Capital expenditure for Q3 FY09 is at Rs. 1,220 million (\$25 million).

**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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