

Dr Reddy's Laboratories Ltd.

NYSE:RDY

FY09 & Q4 FY09 Financial Performance Review

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FY09 IFRS

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Q4 FY09 IFRS

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 50.87

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

Particulars	Index	FY09			FY08			Growth %
		(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Revenue	A	1,365	69,441	100	983	50,006	100	39
Cost of revenues	B	648	32,941	47	484	24,598	49	34
Gross profit	C = A-B	718	36,500	53	499	25,408	51	44
Operating Expenses								
Selling, general & administrative expenses ^(a)	D	413	21,020	30	331	16,835	34	25
Research and development expenses, net	E	79	4,037	6	69	3,533	7	14
Write down of intangible assets	F	62	3,167	5	59	3,011	6	-
Write down of goodwill	G	213	10,856	16	2	90	0	-
Other (income)/expenses, net	H	5	253	0	(8)	(402)	(1)	-
Total Operating Expenses	I = D+E+F+G+H	773	39,333	57	453	23,067	46	71
Results from operating activities	J = C-I	(56)	(2,833)	(4)	46	2,341	5	-
Finance income ^(b)	K	(9)	(482)	(1)	(31)	(1,601)	(3)	(70)
Finance expenses ^(c)	L	33	1,668	2	21	1,080	2	54
Finance expenses, net	M = K+L	23	1,186	2	(10)	(521)	(1)	-
Share of profit/(loss) of equity accounted investees	N	0	24	0	0	2	0	1100
Profit before income tax	O = J-M+N	(79)	(3,995)	(6)	56	2,864	6	-
Income tax expense	P	(23)	(1,173)	(2)	19	972	2	-
Profit for the period	Q = O+P	(102)	(5,168)	(7)	75	3,836	8	-
Attributable to :								
Equity holders of the company	R	(102)	(5,168)	(7)	76	3,846	8	-
Minority interest	S	0	0	0	(0)	(10)	(0)	-
Profit for the period	T = R+S	(102)	(5,168)	(7)	75	3,836	8	-
Weighted average no. of shares o/s	U		169			169		
Diluted EPS	V = R/U	(0.6)	(30.7)		0.4	22.8		
Exchange rate			50.87			50.87		

Notes:

(a) Includes amortization charges of Rs. 1,503 million in FY09 and Rs. 1,588 million in FY08

(b) Includes forex gain of Rs. 739 million in FY08

(c) Includes forex loss of Rs. 634 million in FY09.

Key Balance Sheet Items
(in millions)

Particulars	As on 31 st Mar 09		As on 31 st Mar 08	
	(\$)	(Rs.)	(\$)	(Rs.)
Cash and cash equivalents	110	5,603	146	7,421
Investments (current & non current)	10	530	93	4,753
Trade and other receivables	282	14,368	134	6,823
Inventories	260	13,226	219	11,133
Property, plant and equipment	410	20,881	330	16,765
Loans and borrowings (current & non current)	387	19,701	380	19,352
Trade accounts payable	118	5,987	107	5,427
Total Equity	827	42,045	931	47,350

Revenue Mix by Segment
(in millions)

	FY09 \$	FY09 INR	as a %	FY08 \$	FY08 INR	as a %	Growth %
Global Generics	979	49,790	72	649	33,023	66	51
North America	390	19,843	40	158	8,024	24	147
Europe	234	11,886	24	201	10,216	31	16
India	167	8,478	17	158	8,060	24	5
Russia & Other CIS	150	7,623	15	109	5,526	17	38
Others	39	1,959	4	24	1,197	4	64
PSAI (Pharmaceutical Services & Active Ingredients)	369	18,758	27	327	16,622	33	13
North America	76	3,875	21	66	3,350	20	16
Europe	121	6,160	33	111	5,647	34	9
India	47	2,383	13	46	2,352	14	1
Others	125	6,340	34	104	5,273	32	20
Proprietary Products	6	294	0	1	39	0	651
Others	12	599	1	6	321	1	86
Total	1,365	69,441	100	983	50,006	100	39

Revenue Mix by Geography
(in millions)

	FY09 \$	FY09 INR	as a %	FY08 \$	FY08 INR	as a %	Growth %
North America	472	24,012	35	224	11,374	23	111
Europe	355	18,047	26	312	15,863	32	14
India	225	11,460	17	212	10,772	22	6
Russia & Other CIS	150	7,623	11	109	5,526	11	38
Others	163	8,299	12	127	6,470	13	28
Total	1,365	69,441	100	983	50,006	100	39

Business Highlights

- o Overall revenues at Rs. 69.4 billion (\$1.4 billion) in FY09 as against Rs. 50.0 billion (\$983 million) in FY08, representing a growth of 39%.
 - 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 24%, driven by the key markets of North America and Russia.
- o Operating income is at Rs. 11.2 billion (\$220 million) in FY09 as against Rs. 5.4 billion (\$107 million) in FY08 after adjusting for non cash impairment of intangibles and goodwill.
- o EBITDA at Rs. 14.5 billion (\$285 million) in FY09 as against Rs. 9.7 billion (\$190 million) in FY08, representing a growth of 50%, higher than the sales growth of 39%.
- o During the year ended March 31, 2009, in Germany, there has been a visible shift towards the tender based supply model with a continuing decrease in market prices. Pursuant to this adverse market development, the Company tested its carrying value of intangibles and goodwill at betapharm for impairment as required under the accounting standards. The impairment testing indicated that the carrying values of goodwill and some of the product related intangibles were higher than their respective recoverable values and accordingly, the Company has recorded an impairment loss with respect to intangible assets amounting to Rs. 3,167 million (Euros 47 million), before tax and with respect to goodwill of Rs 10,856 million (Euros 162 million). This is a one-time non-cash charge in the Income statement and incorporates the provisions of applicable accounting standards.
- o Revenues from Global Generics business at Rs. 49.8 billion (\$979 million) in FY09 as against Rs. 33.0 billion (\$649 million) in FY08. YoY growth of 51% driven by sumatriptan and key markets of North America and Russia.
 - o Excluding revenues from Sumatriptan, the growth of 58% in North America was driven by volume growth in existing products, acquisition of the Shreveport facility and the benefit of rupee depreciation against dollar.
 - o Revenue growth of 43% in Russia driven by key brands of Omez, Nise, Ketorol, Cetrine and Bion.
- o Revenues from Pharmaceutical Services & Active Ingredients (PSAI) increase by 13% to Rs. 18.8 billion (\$369 million) in FY09 as against Rs. 16.6 billion (\$327 million) in FY08.
- o During the year, the company launched 116 new generic products, filed 110 new generic product registrations and filed 55 DMFs globally.

Global Generics

- o Revenues from Global Generics business at Rs. 49.8 billion (\$979 million) in FY09 as against Rs. 33.0 billion (\$649 million) in FY08. YoY growth of 51% driven by launch of sumatriptan and the key markets of North America and Russia.
- o Revenues from North America at Rs. 19.8 billion (\$390 million) in FY09 as against Rs. 8.0 billion (\$158 million) in FY08.
 - o Excluding revenues from Sumatriptan, the growth of 58% in North America was driven by high volume growth across existing Top products and acquisition of Shreveport facility.
 - o Revenue from Shreveport facility at Rs. 1.7 billion (\$33 million) in FY09.
 - o 16 new products launched in FY09.
 - o During the year, the Company filed 20 ANDAs taking the total filings to 144. Total of 69 ANDAs pending at the USFDA addressing innovator sales of \$46 billion as per IMS December 2008.
- o Revenues from Europe at Rs. 11.9 billion (\$234 million) in FY09 as against Rs. 10.2 billion (\$201 million) in FY08, representing a growth of 16%.
 - o Revenues from betapharm increase by 20% to Rs. 9.9 billion (\$194 million) in FY09 from Rs. 8.2 billion (\$161 million) in FY08. This increase was on account of :
 - o Volume growth in existing products
 - o betapharm volume growth of 16.5% as against market volume growth of 3.2%.
(Source: NVI Report Apr-March 2009)
 - o One off seasonal vaccine sales in Q2 FY09
 - o Revenues from Rest of Europe remain flat at Rs. 1.9 billion (\$39 million) in FY09.
 - o During the year, the company launched 25 new products and filed 11 dossiers across Europe.
- o Revenues from Russia & Other CIS markets at Rs. 7.6 billion (\$150 million) in FY09 as against Rs. 5.5 billion (\$109 million) in FY08, representing a growth of 38%.
 - o Revenues in Russia increase to Rs. 5.8 billion (\$114 million) in FY09 as against Rs. 4.1 billion (\$80 million) in FY08. YoY growth of 43% driven by key brands of Omez, Nise, Ketorol, Cetrine and Bion.
 - o Dr. Reddy's volume growth at 11.2% as against the industry volume degrowth of 0.2%.
(Source: Pharmexpert MAT Mar 09)
 - o Combined revenues from OTC & Hospital segment contribute 27% to total revenues.
- o Revenues in Other CIS markets increase to Rs. 1.8 billion (\$36 million) in FY09 as against Rs. 1.5 billion (\$29 million) in FY08. YoY growth of 25%.
- o Revenues in India increase to Rs. 8.5 billion (\$167 million) in FY09 from Rs. 8.1 billion (\$158 million), representing a growth of 5%.
 - o The sub-industry growth in India is on account of delay in launch of new products and temporary decline due to change in our supply chain model to a replenishment based model.

- o 36 new products launched during the year.
- o New products launched in the last 36 months contribute 14% to total revenues in FY09.

Pharmaceutical Services and Active Ingredients

- o Revenues from this segment increase to Rs. 18.8 billion (\$369 million) in FY09 as against Rs. 16.6 billion (\$327 million) in FY08; YoY growth of 13% driven by growth in North America and RoW markets as well as benefit by depreciation of rupee against the dollar.
- o Revenue from the business & facility acquired from Dow Pharma at Rs. 1.0 billion (\$20 million) in FY09.
- o During the year, 55 DMFs were filed globally, with 21 in US, 19 in Europe, 5 in Canada & 10 in RoW. The cumulative DMF filings till date is 351.

Income Statement Highlights:

- o Gross profit increase by 44% to Rs. 36.5 billion (\$718 million) in FY09 as against Rs. 25.4 billion (\$499 million) in FY08. Gross profit margins on total revenues at 53% as against 51% in FY08, largely driven by attractive margins on sumatriptan.
- o Selling, General & Administration (SG&A) expenses increase to Rs. 21.0 billion (\$413 million) in FY09 from Rs. 16.8 billion (\$331 million) in FY08.
 - o SG&A expenses as a % to sales is at 30% in FY09 as against 34% in FY08. The absolute increase is in line with a higher sales growth and coupled with a higher impact of currency on expenses outside India; however it was offset by control measures to optimize spending on expenses such as travel, General & Administration expenses and others.
- o Other operating expenses of Rs. 253 million in FY09 includes Rs. 921 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 FY09 as against 7% in FY08. YoY growth of 14%.
- o Finance costs (net) are at Rs. 1.2 billion in FY09 as against Finance income (net) at Rs. 521 million in FY08. The increase is mainly on account of :
 - o Net forex loss of Rs. 634 million in FY09 as against net forex gain of Rs. 739 million in FY08.
 - o Net interest expense of Rs. 687 million in FY09 as against net interest expense of Rs. 329 million in FY08.
- o PAT adjusted for one time exceptions is at Rs. 8.5 billion (\$167 million) as against Rs. 4.5 billion (\$88 million) in FY08.
- o Adjusted EPS of Rs. 50.3 (\$1.0) in FY09 as against adjusted EPS of Rs. 26.6 (\$0.5), representing a growth of 89%.
- o Capital expenditure for FY09 is at Rs. 4.4 billion (\$87 million).

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

Particulars	Index	Q4 FY09			Q4 FY08			Growth %
		(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Revenue	A	390	19,851	100	261	13,253	100	50
Cost of revenues	B	179	9,081	46	122	6,229	47	46
Gross profit	C = A-B	212	10,770	54	138	7,024	53	53
Operating Expenses								
Selling, general & administrative expenses ^(a)	D	104	5,267	27	93	4,715	36	12
Research and development expenses, net	E	22	1,135	6	20	1,023	8	11
Write down of intangible assets	F	62	3,167	16	3	128	1	-
Write down of goodwill	G	213	10,856	55	2	90	1	-
Other (income)/expenses, net	H	(4)	(186)	(1)	(3)	(150)	(1)	24
Total Operating Expenses	I = D+E+F+G+H	398	20,239	102	114	5,807	44	249
Results from operating activities	J = C-I	(186)	(9,469)	(48)	24	1,217	9	-
Finance income ^(b)	K	0	20	0	(6)	(290)	(2)	-
Finance expenses ^(c)	L	1	62	0	5	252	2	(75)
Finance expenses, net	M = K+L	2	82	0	(1)	(38)	(0)	-
Share of profit/(loss) of equity accounted investees	N	0	14	0	(0)	(1)	(0)	-
Profit before income tax	O = J-M+N	(187)	(9,537)	(48)	25	1,254	9	-
Income tax expense	P	(5)	(240)	(1)	(6)	(328)	(2)	(27)
Profit for the period	Q = O+P	(192)	(9,777)	(49)	18	926	7	-
Attributable to :								
Equity holders of the company	R	(192)	(9,777)	(49)	18	926	7	-
Minority interest	S	-	-	0	0	0	0	-
Profit for the period	T = R+S	(192)	(9,777)	(49)	18	926	7	-

Weighted average no. of shares o/s	U		169.1			168.1		
Diluted EPS	V = R/U	(1.1)	(57.8)		0.1	5.5		
Exchange rate			50.87			50.87		

Notes:

- a) Includes amortization charges of Rs. 316 million in Q4 FY09 and Rs. 461 million in Q4 FY08.
- b) Includes forex gain of Rs. 93 million in Q4 FY08.
- c) Includes forex loss of Rs. 21 million in Q4 FY09.

Revenue Mix by Segment

(in millions)

	Q4 FY09 \$	Q4 FY09 INR	as a %	Q4 FY08 \$	Q4 FY08 INR	as a %	Growth %
Global Generics	288	14,670	73	172	8,744	66	68
North America	142	7,205	49	48	2,466	28	192
Europe	61	3,096	21	57	2,905	33	7
India	41	2,072	14	39	1,993	23	4
Russia & Other CIS	36	1,834	13	21	1,055	12	74
Others	9	462	3	6	325	4	42
PSAI (Pharmaceutical Services & Active Ingredients)	96	4,859	24	86	4,373	33	11
North America	16	833	17	9	441	10	89
Europe	42	2,153	44	34	1,730	40	24
India	11	572	12	11	548	13	4
Others	26	1,302	27	33	1,654	38	(21)
Proprietary Products	3	177	1	0	4	0	4,356
Others	3	145	1	3	132	1	10
Total	390	19,851	100	261	13,253	100	50

Revenue Mix by Geography

(in millions)

	Q4 FY09 \$	Q4 FY09 INR	as a %	Q4 FY08 \$	Q4 FY08 INR	as a %	Growth %
North America	161	8,215	41	57	2,908	22	183
Europe	103	5,249	26	91	4,636	35	13
India	55	2,789	14	53	2,675	20	4
Russia & Other CIS	36	1,834	9	21	1,055	8	74
Others	35	1,763	9	39	1,979	15	(11)
Total	390	19,851	100	261	13,253	100	50

Business Highlights

- o Overall revenues at Rs. 19.8 billion (\$390 million) in Q4 FY09 as against Rs. 13.2 billion (\$261 million) in Q4 FY08, representing a growth of 50%.
 - o The growth was majorly driven by the Sumatriptan.
 - o Excluding revenues from Sumatriptan, the YoY growth is at 23%.
- o Operating income at Rs. 4.6 billion (\$90 million) in Q4 FY09 as against Rs. 1.4 billion (\$28 million) in Q4 FY08 after adjusting for non-cash impairment.
- o EBITDA at Rs. 5.5 billion (\$108 million) in Q4 FY09 as against Rs. 2.6 billion (\$51 million) in Q4 FY08, representing a growth of 113%.

- o Revenues from Global Generics business at Rs. 14.7 billion (\$288 million) in Q4 FY09 as against Rs. 8.7 billion (\$172 million) in Q4 FY08. YoY growth of 68% driven by sumatriptan and key markets of North America and Russia.
- o Excluding revenues from Sumatriptan, the growth of 44% in North America was driven by new product launches like Divalproex, Levetiracetam and acquisition of the Shreveport facility.
- o Revenue growth of 88% in Russia driven by key brands.
- o Revenues from Pharmaceutical Services & Active Ingredients (PSAI) increase by 11% to Rs. 4.9 billion (\$96 million) in Q4 FY09 as against Rs. 4.4 billion (\$86 million) in Q4 FY08.

Income Statement Highlights:

- o Gross profit increase by 53% to Rs. 10.8 billion (\$212 million) in Q4 FY09 as against Rs. 7.0 billion (\$138 million) in Q4 FY08. Gross profit margins on total revenues at 54% as against 53% in FY08, driven by attractive margins on sumatriptan.
- o Selling, General & Administration (SG&A) expenses increase to Rs. 5.3 billion (\$104 million) (27% of revenues) in Q4 FY09 from Rs. 4.7 billion (\$93 million) in Q4 FY08 (36% of revenues).
 - o The growth of 12% was well lower than the sales growth of 50%. This reduction of SG&A as a % to sales is largely due to the close monitoring of costs across the company.
- o R&D expenses at 6% of total revenues in Q4 FY09 as against 8% in Q4 FY08.
- o Finance costs (net) are at Rs. 82 million (\$2 million) in Q4 FY09 as against Finance income (net) at Rs. 38 million (\$1 million) in Q4 FY08. The increase is mainly on account of :
 - o Net forex loss of Rs. 21 million in Q4 FY09 as against net forex gain of Rs. 93 million in Q4 FY08.
 - o Net interest expense of Rs. 71 million in Q4 FY09 as against Rs. 126 million in Q4 FY08.
- o PAT adjusted for one time exceptions is at Rs. 3.3 billion (\$64 million) as against Rs. 1.1 billion (\$22 million) in FY08.

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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