

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q1 FY08 Financial Performance Review

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Q1 FY08 USGAAP

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1 USD = Rs 40.58

EXTRACT FROM THE UNAUDITED INCOME STATEMENT

Particulars	Q1 FY08			Q1 FY07			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues	296	12,018	100	346	14,049	100	(14)
Cost of revenues	146	5,914	49	196	7,960	57	(26)
Gross profit	150	6,104	51	150	6,089	43	-
Selling, General & Administrative Expenses	78	3,166	26	82	3,346	24	(5)
R&D Expenses ⁽¹⁾	20	806	7	13	533	4	51
Amortization Expenses	9	351	3	9.6	388	3	(10)
Other operating (income)/expense net	-	0.8	0	(2)	(70)	0	-
Forex Loss/ (Gain)	(7)	(285)	(2)	1.8	74	1	-
Operating income/(loss)	51	2,065	17	45	1,817	13	14
Equity in loss of affiliates	0.1	4	0	-	15	-	(73)
Other income/(expense) net	1.4	57	0	5	197	2	(71)
Income before income taxes and minority interest	49	2,003	17	39.5	1,605	11	25
Income tax (expense)/benefit	4.5	(181)	(2)	5	208	1	-
Minority interest	(0.1)	(3)	0		0	0	-
Net income	45	1,825	15	34	1,398	10	31
DEPS	0.27	10.82		0.22	9.07		
Exchange rate		40.58			40.58		
Key Balance Sheet Items							
	As on 30 June 07			As on 31 March 07			
Cash and cash equivalents	274	11,112		458	18,588		
Borrowings from banks (Short + Long)	377	15,290		610	24,754		
Accounts receivable, net of allowances	176	7,127		185	7,519		
Inventories	208	8,426		186	7,546		
Property, plant and equipment, net	319	12,963		306	12,428		

- Income recognition under Generics R&D partnership with ICICI Venture amounting to Rs 158 million in Q1 FY07 compared to nil in Q1 FY08. Reimbursement of expenses from Perlecan Pharma Private Limited of Rs. 86 million in Q1 FY 08 as against Rs 31 million in Q1 FY07.

Revenue by Segment

(in million)

	Q1 FY08 \$	Q1 FY08 INR	as a %	Q1 FY07 \$	Q1 FY07 INR	as a %	Growth %
APIs	64	2,617	22	57	2,309	16	13
India	13	535	20	15.5	625	27	(14)
International	51	2,082	80	41.5	1,684	73	24
Branded Formulations	100	4,051	34	87	3,527	25	15
India	50	2,022	50	43	1,742	49	16
International	50	2,029	50	44	1,785	51	14
Generics	105	4,247	36	166	6,737	48	(37)
Custom pharmaceutical services	25	1,017	8	35	1,418	11	(28)
Others	2	86	-	1	58	-	9
Total	296	12,018	100	346	14,049	100	(14)

Note: Emerging Business included in Branded Formulations from Q1 FY08 onwards

Revenue by Geography

(in million)

	Q1 FY08 \$	Q1 FY08 INR	as a %	Q1 FY07 \$	Q1 FY07 INR	as a %	Growth %
India	63	2,575	21	59	2,393	17	8
North America	65	2,643	22	120	4,889	35	(46)
Russia	31	1,243	10	28	1,117	8	11
Europe	91	3,699	31	80	3,247	23	14
Others	46	1,858	16	59	2,403	17	(23)
TOTAL	296	12,018	100	346	14,049	100	(14)

Business Highlights

- Revenues at Rs 12.0 billion in Q1 FY08 as against Rs 14.0 billion in Q1 FY07, representing a decrease of 14%
 - Revenues from international markets at Rs. 9.4 billion
 - Contributed 78% to total revenues as compared to 83% in Q1 FY07
- Excluding the upsides from authorized generics in both the quarters, revenues increased by 10% to Rs 11.8 billion in Q1 FY08 from Rs 10.7 billion in Q1 FY07.
- Revenues in the API business increase by 13% to Rs 2.6 billion in Q1 FY08 from Rs. 2.3 billion in Q1 FY07 primarily driven by growth in international markets.
- Revenues in branded formulations business increase by 15% to Rs. 4.0 billion in Q1 FY08 from Rs. 3.5 billion in Q1 FY07 driven by growth in India, Russia and CIS.

- Revenues from ondansetron, generic version of Zofran® at Rs. 66 million. The exclusivity for this product expired on June 22, 2007.
- Revenues from betapharm at Rs. 2.1 billion in Q1 FY08 as compared to Rs. 1.9 billion in Q1 FY07. As per INSIGHT May 2007, betapharm recorded a 36% growth in pharmacy volumes.
- Revenues from custom pharmaceuticals services decline to Rs 1 billion in Q1 FY08 from Rs 1.4 billion in Q1 FY07.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 2.6 billion in Q1 FY08 as against Rs 2.3 billion in Q1 FY 07, representing an increase of 13%.
- Revenues outside India at Rs 2.0 billion in Q1 FY08 as against Rs 1.7 billion in Q1 FY07 , representing an increase of 24%. Such revenues contributed 80% of total segment revenues as compared to 73% in Q1 FY07.
- Revenues in Europe increased by 22% to Rs. 536 million in Q1 FY08 from Rs. 440 million in Q1 FY07 primarily driven by sales of key products of montelukast and escitalopram.
- Revenues in rest of the world markets increased by 27% to Rs. 1.0 billion in Q1 FY08 from Rs. 824 million in Q1 FY07, primarily driven by growth in key markets.
- Revenues in North America increased by 19% to Rs 498 million in Q1 FY08 as against Rs 420 million in Q1 FY07 driven by combination of new launches as well as new products under development.
- Revenues in India at Rs 535 million in Q1 FY08 compared to Rs 625 million in Q1 FY07, representing decrease of 14%, primarily on account of volume decline in key products.
- The Company filed 3 US DMFs during the quarter taking the total filings to 107. The company also filed 3 DMFs each in Canada and Europe.

API - Geographic Mix

(in million)

	Q1 FY08 \$	Q1 FY08 INR	as a %	Q1 FY07 \$	Q1 FY07 INR	as a %	Growth %
North America	12	498	20	10	420	18	19
India	13	535	20	15	625	27	(14)
Europe	13	536	20	11	440	19	22
ROW	26	1,048	40	20	824	36	27
TOTAL	64	2,617	100	57	2,309	100	13

Generic Finished Dosages

- Revenues in this segment at Rs 4.2 billion in Q1 FY08 as against Rs 6.7 billion in Q1 FY07.
- North America contributed 42% and Europe contributed 58% to the segment revenues.
- In North America, revenues at Rs. 1.8 billion in Q1 FY08 as against Rs. 4.3 billion in Q1 FY07. Q1 FY07 included Rs 3.3 billion in revenues from the authorized generics products. Excluding these revenues, the balance portfolio has increased by 59% from Rs 958 million in Q1 FY07 to Rs 1.5 billion in Q1 FY08. This increase was the result of the first full quarter of revenues from all the new products launched during FY07.
- Revenues from fexofenadine, generic version of Allegra® at Rs. 517 million. Currently, the Company's market share is about 25%.
- Revenues from ondansetron, generic version of Zofran® at Rs. 66 million. The exclusivity for this product expired on June 22, 2007. Following expiry of exclusivity, the Company's market share is about 54%.
- In Europe revenues increased to Rs. 2.5 billion in Q1 FY08 compared to Rs. 2.4 billion in Q1 FY07.
 - Revenues from betapharm (Germany) at Rs. 2.1 billion in Q1 FY08 as compared to Rs. 1.9 billion in Q1 FY07.
 - Revenues from UK at Rs. 327 million in Q1 FY08 as against Rs 426 million in Q1 FY07.
 - Revenues from Spain at Rs. 14 million.
- As per INSIGHT May 2007, betapharm registered a 36% growth in pharmacy volumes.
- betapharm has the largest number of contracts with insurance companies covering about 70% of the total insured population in Germany.
- In Q1 FY08, the Company filed 8 ANDAs including 3 first-to-file opportunities. The Company also received approval (including tentative) for 4 ANDAs. The Company also filed 3 dossiers in Europe.

Branded Finished Dosages - International

- Revenues at Rs 2.0 billion in Q1 FY08, an increase of 14% over Q1 FY07. This growth was primarily driven by growth in Russia and CIS markets.
- Revenues in Russia increased by 11% to Rs. 1.2 billion in Q1 FY08 as against Rs. 1.1 billion in Q1 FY07. This growth was primarily driven by increase in sales from key brands of Nise, Ciprolet and Keterol as well as the contribution from new products launched during FY07.

- Revenues in CIS markets increased by 25% to Rs 423 million in Q1 FY08 as against Rs 339 million in Q1 FY07. This growth was primarily driven by increase in sales from Ukraine and Kazakhstan.

By Geography

(in million)

Country	Q1 FY08 \$	Q1 FY08 INR	As a %	Q1 FY07 \$	Q1 FY07 INR	as a %	Growth %
Russia	31	1,243	61	28	1,117	63	11
CIS	10	423	21	8	339	19	25
Europe (Central & Eastern)	3	114	6	3	106	6	7
ROW	6	249	12	5	223	12	12
Total	50	2,029	100	44	1,785	100	14

Branded Finished Dosages - India

- Revenues at Rs 2.0 billion in Q1 FY08 as compared to Rs. 1.7 billion in Q1 FY07, representing an increase of 16%. This growth was primarily driven by growth in key brands of Omez, Nise, Stamlo Beta, Atocor and Razo. These brands are growing ahead of their respective segment growth rate.
- Seven new products launched during the quarter.
- As per ORG IMS May 2007,
 - Company continues to be ranked as the second fastest growing company in the Top 10,
 - Company (growth of 25%) outperformed the market growth rate of 14%,
 - Company improved its rank in the industry to the 9th position.

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

Therapeutic Segment	Q1 FY 08			Q1 FY07			Growth%
	USD Mn	Rs Mn	as a %	USD Mn	Rs Mn	as a %	
Gastro Intestinal	9.9	400	19	8.0	326	19	23
Cardiovascular	9.7	392	20	8.0	325	19	21
Pain	6.7	271	13	5.8	234	13	16
Paediatrics	3.9	160	8	3.4	140	7	14
Oncology	3.5	140	8	3.1	127	8	11
Diabetic Care	3.7	152	7	3.1	125	7	21
Anti Infectives	2.7	111	4	2.3	93	5	19
Neutraceuticals	1.9	79	4	2.1	86	4	(8)
Dermatology	2.0	81	5	1.6	63	5	29
Dental	1.8	74	4	1.6	63	4	17
Urology	1.5	61	3	1.2	50	3	23
Respiratory	1.1	44	1	0.9	36	2	22
Women's Health Care	0.6	24	2	0.9	38	2	(37)
Nephrology	0.1	3	2	-	-	2	-
Surgery	0.8	31	0	0.9	36	0	(15)
Total	50	2,022	100	43	1,742	100	16

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

Brand	Q1 FY08			Q1 FY07			Growth%
	\$ Mn	Rs Mn	as a %	\$ Mn	Rs Mn	as a %	
Omez	6.4	259	13	5.3	215	12	21
Nise	5.9	239	12	5.3	214	12	12
Stamlo	2.7	110	5	2.7	108	6	2
Stamlo Beta	2.2	89	4	1.7	69	4	28
Razo	1.7	68	3	1.2	47	3	44
Atocor	1.5	62	3	1.1	45	3	37
Enam	1.3	51	3	1.3	51	3	1
Reclimet	1.0	40	2	0.8	34	2	17
Mintop	0.7	30	2	0.7	28	2	10
Ketorol	0.7	30	1	0.6	26	2	15
Others	26	1,042	52	22	905	52	15
Total	50	2,022	100	43	1,742	100	16

Custom Pharmaceutical Services (CPS)

- Revenues from CPS at Rs. 1.0 billion in Q1 FY08 as compared to Rs 1.4 billion in Q1 FY07.
 - Revenues from Mexico at Rs. 830 million in Q1 FY08 as compared to Rs. 1.2 billion in Q1 FY07. This decline in revenues was primarily on account of shortfall in supplies of one of the key raw materials resulting in customer back orders.
 - Revenues from India increased marginally from Rs. 178 million in Q1 FY07 to Rs. 187 million in Q1 FY08.

Income Statement Highlights

- Gross profits increase marginally to Rs. 6.1 billion in Q1 FY08 from Rs. 6 billion in Q1 FY07. Gross profit margins on total revenues at 51% as against 43% in Q1 FY07. In Q1 FY07, revenues from authorized generics contributed 24% to total revenues and earned gross margins significantly below company average gross margin.
- R&D investments (net) at 7% of total revenues as against 4% in Q1 FY07. Gross R&D investments increased by 8% to Rs 837 million as against Rs 777 million in Q1 FY07. In Q1 FY07, the Company recognized Rs. 244 million under its R&D partnerships as a benefit to the R&D line item as compared to Rs. 31 million in Q1 FY08.
- Selling, General & Administration (SG&A) expenses decrease by 5% to Rs 3.2 billion. As % to revenues, adjusted for authorized generics, the SG&A ratio to sales is at 27% in Q1 FY08 as compared to 31% in Q1 FY07.
- Forex gain of Rs 285 million in Q1 FY08 as compared to forex loss of Rs 74 million in Q1 FY07.
- Amortization was Rs. 351 million as compared to Rs. 388 million in Q1 FY07. This includes amortization relating to intangibles in betapharm, Spain (acquisition of products) and acquisition in Mexico.
- Net income at Rs 1,825 million (15% of total revenues) as against Rs 1,398 million (10% of total revenues) in Q1 FY07. This translates to a diluted EPS of Rs 10.82 as against Rs 9.07 in Q1 FY07.

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