

Dr Reddy's Laboratories Ltd.
NYSE:RDY
Q2 FY08 Financial Performance Review

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Q2 FY08 USGAAP

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1 USD = Rs 39.75

EXTRACT FROM THE UNAUDITED INCOME STATEMENT

Particulars	Q2 FY08			Q2 FY07			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues	319	12,670	100	504	20,039	100	(37)
Cost of revenues	155	6,170	49	296	11,750	59	47
Gross profit	164	6,500	51	209	8,288	41	(22)
Selling, General & Administrative Expenses	106	4,228	33	92	3,667	18	15
R&D Expenses ⁽¹⁾	20	810	6	10	402	2	101
Amortization Expenses	10	410	3	10	402	2	2
Other operating (income)/expense net	-	0.3	-	(0)	(2)	0	-
Forex Loss/ (Gain)	(6)	(256)	(2)	(1)	(55)	0	365
Operating income/(loss)	33	1,308	10	97	3,873	19	(66)
Equity in (loss)/gain of affiliates	-	3.4	-	(1)	(21)	0	-
Other income/(expense) net	3	112	1	(8)	(321)	2	-
Income before income taxes and minority interest	36	1,422	11	89	3,531	18	(60)
Income tax (expense)/benefit	31	1,248	10	(19)	(737)	4	-
Minority interest	-	1	-	(0)	(4)	0	(75)
Net income	67	2,672	21	70	2,798	14	(5)
DEPS	0.40	15.85			18.15		
Exchange rate		39.75			39.75		
Key Balance Sheet Items							
	As on 30 Sept 07			As on 30 June 07			
Cash and cash equivalents	213	8,465		280	11,112		
Investment in securities (current & non-current)	55	2,197		29	1,155		
Borrowings from banks (Short + Long)	411	16,351		385	15,290		
Accounts receivable, net of allowances	211	8,390		179	7,127		
Inventories	242	9,620		212	8,426		
Property, plant and equipment, net	344	13,658		326	12,963		

- Income recognition under Generics R&D partnership with ICICI Venture amounting to Rs 218 million in Q2 FY07 compared to nil in Q2 FY08. Reimbursement of expenses from Perlecan Pharma Private Limited of Rs. 27 million in Q2 FY 08 as against Rs 123 million in Q2 FY07.

Revenue by Segment*(in million)*

	Q2 FY08 \$	Q2 FY08 INR	as a %	Q2 FY07 \$	Q2 FY07 INR	as a %	Growth %
APIs	82	3,240	26	73	2,906	15	11.5
India	18	703	22	13	502	17	40
International	64	2,537	78	60	2,404	83	5.5
Branded Formulations	96	3,815	30	83	3,283	16	16
India	52	2,054	54	48	1,891	58	9
International	44	1,761	46	35	1,392	42	27
Generics	110	4,392	36	305	12,113	60	(64)
Custom pharmaceutical services	29	1,160	8.5	42	1,668	8	(30.5)
Others	2	62	0.5	2	69	1	(10)
Total	319	12,670	100	504	20,039	100	(37)

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

Revenue by Geography*(in million)*

	Q2 FY08 \$	Q2 FY08 INR	as a %	Q2 FY07 \$	Q2 FY07 INR	as a %	Growth %
India	70	2,764	22	61	2,430	12	14
North America	75	2,968	23	256	10,196	51	(71)
Russia	25	980	8	20	783	4	25
Europe	94	3,734	30	97	3,848	19	(3)
Others	56	2,224	17	70	2,781	14	(20)
TOTAL	319	12,670	100	504	20,039	100	(37)

Business Highlights

- Revenues at Rs 12.7 billion in Q2 FY08 as against Rs 20 billion in Q2 FY07, representing a decrease of 37%
 - Revenues increase by 4% in Q2 FY08 after excluding the upsides from authorized generics in Q2 FY07.
- Revenues in the API business increase by 11.5% to Rs 3.2 billion in Q2 FY08 from Rs. 2.9 billion in Q2 FY07 primarily driven by growth across key markets.
- Revenues in branded formulations business increase by 16% to Rs. 3.8 billion in Q2 FY08 from Rs. 3.3 billion in Q2 FY07 driven by growth in India, Russia and CIS.
- Revenues from North America generics business increase by 63% to Rs 2 billion excluding the benefit of upsides from authorized generics in Q2 FY07.

- Revenues from organic segment of custom pharmaceuticals services business increase by 125% to Rs 528 million in Q2 FY08 from Rs 234 million in Q2 FY07.
- Revenues from betapharm at Rs. 1.9 billion in Q2 FY08 as compared to Rs. 2.6 billion in Q2 FY07. As per INSIGHT August 2007, betapharm recorded a combined 28% growth in pharmacy volumes for July and August.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 3.2 billion in Q2 FY08 as against Rs 2.9 billion in Q2 FY 07, representing an increase of 11.5%.
- Revenues in India at Rs 703 million in Q2 FY08 as against Rs 502 million in Q2 FY07, representing an increase of 40%. This growth was driven by the increase in sales of ciprofloxacin, clopidogrel and ramipril.
- Revenues in North America increase by 46% to Rs. 640 million in Q2 FY08 from Rs. 437 million in Q2 FY07 driven by combination of new launches as well as new products under development.
- Revenues in rest of the world markets decrease by 9% to Rs. 1.3 billion in Q2 FY08 from Rs. 1.4 billion in Q2 FY07. The impact of higher sales from supplies of sertraline during 180-day exclusivity in Q2 FY07 partially offset by the increase in revenues from Japan and other markets.
- The Company filed 3 US DMFs during the quarter taking the total filings to 110.

API - Geographic Mix

(in million)

	Q2 FY08 \$	Q2 FY08 INR	as a %	Q2 FY07 \$	Q2 FY07 INR	as a %	Growth %
North America	16	640	20	11	437	15	46
India	18	703	22	13	502	17	40
Europe	15	595	18	13	536	18	11
ROW	33	1,302	40	36	1,431	49	(9)
TOTAL	82	3,240	100	73	2,906	99	11.5

Generic Finished Dosages

- Revenues in this segment at Rs 4.4 billion in Q2 FY08 as against Rs 12.1 billion in Q2 FY07.
- North America contributed 47% and Europe contributed 53% to the segment revenues.
- In North America, revenues at Rs. 2 billion in Q2 FY08 as against Rs. 9 billion in Q2 FY07. Q2 FY07 included Rs 7.8 billion in upside revenues from the authorized generics products. Excluding these revenues in Q2 FY07, the revenues increase by 63% from Rs 1.3 billion in Q2 FY07 to Rs 2 billion in Q2 FY08.
 - Revenues from fexofenadine, generic version of Allegra® at Rs. 586 million. Currently, the Company's market share is about 46%.
 - Revenues from finasteride, generic version of Proscar® at Rs. 631 million. This includes the revenues from commencement of supplies to the US government department.
- In Europe revenues decrease to Rs. 2.3 billion in Q2 FY08 compared to Rs. 3 billion in Q2 FY07.
 - Revenues from betapharm (Germany) at Rs. 1.9 billion in Q2 FY08 as compared to Rs. 2.6 billion in Q2 FY07. This decline is the result of ongoing supply constraints as well as rupee appreciation against the Euro.
 - Key new product launches in the first six months include oxycodone, finasteride and amlodipine besylate. Oxycodone is performing extremely well contributing 7% of betapharm revenues with a market share of 8%.
 - As per INSIGHT August 2007, betapharm recorded a combined 28% growth in pharmacy volumes for July and August.
 - Revenues from rest of Europe at Rs. 439 million in Q2 FY08 as against Rs 472 million in Q2 FY07.
- In Q2 FY08, the Company filed 1 ANDA taking the total filings in the first six months to 9. The Company also received approval (including tentative) for 8 ANDAs.

Branded Finished Dosages - International

- Revenues at Rs 1.8 billion in Q2 FY08, an increase of 27% over Q2 FY07. This increase was driven by growth across key markets.
- Revenues in Russia increased by 25% to Rs. 980 million in Q2 FY08 as against Rs. 783 million in Q2 FY07. This growth was primarily driven by increase in sales from key brands of Keterol, Enam, Cetrine and Omez as well as the contribution from new products launched during FY07.
- Revenues in CIS markets increase by 34% to Rs 322 million in Q2 FY08 as against Rs 241 million in Q2 FY07. This growth was primarily driven by increase in sales across key markets.

By Geography*(in million)*

Country	Q2 FY08 \$	Q2 FY08 INR	as a %	Q2 FY07 \$	Q2 FY07 INR	as a %	Growth%
Russia	25	980	26	20	783	24	25
CIS	8	322	8	6	241	7	34
Europe (Central & Eastern)	3	109	3	3	105	3	4
ROW	9	351	9	7	263	8	33
Total	44	1,762	100	35	1,392	100	27

Branded Finished Dosages - India

- Revenues at Rs 2.0 billion in Q2 FY08 as compared to Rs. 1.9 billion in Q2 FY07, representing an increase of 9%. This growth was primarily driven by growth in key brands of Omez, Stamlo Beta, Atocor and Razo.
- Reditux launched in April, contributed Rs 33 million in revenues in Q2 FY08.
- During the quarter, Razo-D, our brand of rabeprazole and domperidone, combination emerged as the market leader in this product category. Leon, our brand of levofloxacin, moved to the 4th position despite being a late entrant in this product category.
- As per ORG IMS August MAT 2007, the company (growth of 15.6%) outperformed the market growth rate of 13.4%.

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

Brand	Q2 FY08			Q2 FY07			Growth%
	\$	INR	as a %	\$	INR	as a %	
Omez	6	242	12	6	224	12	8
Nise	6	243	12	7	274	15	(11)
Stamlo	2	89	4	2	88	5	1
Stamlo Beta	2	71	3	2	66	4	8
Razo	2	77	4	1	57	3	36
Atocor	1	56	3	1	46	2	23
Grafeel	1	42	2	1	44	2	(5)
Enam	1	41	2	1	43	2	(3)
Clamp	1	37	2	1	42	2	(14)
Reclimet	1	37	2	1	40	2	(7)
Others	28	1,117	54	24	965	51	16
Total	52	2,054	100	48	1,891	100	9

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

Therapeutic Segment	Q2 FY 08			Q2 FY07			Growth%
	\$	INR	as a %	\$	INR	as a %	
Gastro Intestinal	10.1	400	19	8.6	343	18	17
Cardiovascular	8.4	335	16	7.4	294	16	14
Pain	6.6	263	13	7.3	289	15	(9)
Paediatrics	4.3	171	8	4.8	190	10	(10)
Oncology	4.7	185	9	3.7	146	8	27
Diabetic Care	3.5	140	7	3.2	127	7	10
Anti Infectives	3.1	123	6	2.8	112	6	10
Neutraceuticals	1.8	73	4	1.8	72	4	0
Dermatology	2.3	92	4	2.1	86	5	7
Dental	1.8	73	4	1.5	61	3	20
Urology	1.6	65	3	1.4	54	3	20
Respiratory	1.3	50	2	1.1	43	2	17
Women's Health Care	0.6	25	1	0.8	31	2	(17)
Surgery	1.2	46	2	0.8	33	2	40
Others	0.3	13	1	0.2	10	1	33
Total	52	2,054	100	48	1,891	100	9

Custom Pharmaceutical Services (CPS)

- Revenues from CPS at Rs. 1.2 billion in Q2 FY08 as compared to Rs 1.7 billion in Q2 FY07.
 - Revenues from CPS organic business increase by 125% to Rs 528 million in Q2 FY08 from Rs 234 million in Q2 FY07.
 - Revenues from Mexico decrease by 56% to Rs. 632 million in Q2 FY08 as compared to Rs. 1.4 billion in Q2 FY07.

Income Statement Highlights

- Gross profits at Rs. 6.5 billion in Q2 FY08 as against Rs. 8.3 billion in Q2 FY07. Gross profit margins on total revenues at 51% as against 41% in Q2 FY07. In Q2 FY07, revenues from authorized generics contributed 39% to total revenues and earned gross margins significantly below company average gross margin.
- R&D investments (net) at 6% of total revenues as against 2% in Q2 FY07. Gross R&D investments increase by 13% to Rs 837 million as against Rs 743 million in Q2 FY07. In Q2 FY07, the Company recognized Rs. 341 million under its R&D partnerships as a benefit to the R&D line item as compared to Rs. 27 million in Q2 FY08.
- Selling, General & Administration (SG&A) expenses increase by 15% to Rs 4.2 billion. As % to revenues, the SG&A ratio to sales is at 33% in Q2 FY08. This increase is the result of certain expenses spilling over from the first quarter coupled with certain exceptional items in Q2 FY08.
- Forex gain of Rs 256 million in Q2 FY08 as compared to a gain of Rs 55 million in Q2 FY07.

- Amortization at Rs. 410 million as compared to Rs. 402 million in Q2 FY07. This includes amortization relating to intangibles in betapharm, Spain (acquisition of products) and acquisition in Mexico.
- Income tax line item includes line item includes the benefit of the reduction in deferred tax liability relating to betapharm of Rs. 1.5 billion. This reduction is primarily on account of lowering of the tax rate to 30% from 39% at the time of acquisition.
- Net income at Rs 2,672 million (21% of total revenues) as against Rs 2,798 million (14% of total revenues) in Q2 FY07. This translates to a diluted EPS of Rs 15.85 as against Rs 18.15 in Q2 FY07.

For further queries, please contact the IR desk at:

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