

Dr Reddy's Laboratories Ltd.
NYSE:RDY
Q3 FY08 Financial Performance Review

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Q3 FY08 USGAAP

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Note: The rebates payments to Insurance Companies in Germany are netted off from Revenues commencing April 1, 2007. In the below table, the corresponding amount for Q3 FY08 has been adjusted from Revenues.

All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1 USD = Rs 39.41

EXTRACT FROM THE UNAUDITED INCOME STATEMENT

Particulars	Q3 FY08			Q3 FY07			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues	313	12,320	100	392	15,434	100	(20)
Cost of revenues	159	6,285	51	221	8,690	56	(28)
Gross profit	153	6,034	49	171	6,744	44	(11)
Selling, General & Administrative Expenses	95	3,760	31	91	3,604	23	4
R&D Expenses ⁽¹⁾	23	894	7	17	676	4	32
Amortization Expenses	10	379	3	8	330	2	15
Write-down of intangible assets	60	2,361	19	-	0	0	-
Other operating (income)/expense net	0	(1)	0	(1)	(21)	0	(93)
Forex Loss/ (Gain)	(2)	(87)	(1)	1	49	0	-
Operating income/(loss)	(32)	(1,271)	(10)	53	2,105	14	-
Equity in (loss)/gain of affiliates	0	3	0	(0)	(12)	0	-
Other income/(expense) net	1	39	0	(6)	(241)	(2)	-
Income before income taxes and minority interest	(31)	(1,230)	(10)	47	1,852	12	-
Income tax (expense)/benefit	10	380	3	1	27	0	
Minority interest	0	3	0	-	0	0	
Net income	(21)	(847)	(7)	48	1,879	12	-
DEPS		(5.04)			11.73		
Exchange rate		39.41			39.41		
Key Balance Sheet Items							
	As on 31 Dec 07			As on 30 Sept 07			
Cash and cash equivalents	158	6,244		214	8,445		
Investment in securities (current & non-current)	108	4,252		56	2,197		
Borrowings from banks (Short + Long)	433	17,073		415	16,351		
Accounts receivable, net of allowances	197	7,757		213	8,390		
Inventories	262	10,326		244	9,620		
Property, plant and equipment, net	374	14,748		346	13,658		

- Income recognition under Generics R&D partnership with ICICI Venture amounted to Rs 77 million in Q3 FY07 compared to Rs nil in Q3 FY08. Reimbursement of expenses from Perlecan Pharma Private Limited of Rs. 16 million in Q3 FY 08 as against Rs 79 million in Q3 FY07.

Revenue by Segment

(in million)

	Q3 FY08 \$	Q3 FY08 INR	as a %	Q3 FY07 \$	Q3 FY07 INR	as a %	Growth %
APIs	74	2,936	24	69	2,729	18	8
India	14	566	19	12	482	18	17
International	60	2,370	81	57	2,247	82	6
Branded Formulations	98	3,854	31	86	3,388	22	14
India	51	1,992	52	44	1,723	51	16
International	47	1,862	48	42	1,665	49	12
Generics	106	4,174	34	195	7,682	50	(46)
Custom pharmaceutical services	33	1,279	10	40	1,569	10	(19)
Others	2	78	1	2	67	0	16
Total	313	12,320	100	392	15,434	100	(20)

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

Revenue by Geography

(in million)

	Q3 FY08 \$	Q3 FY08 INR	as a %	Q3 FY07 \$	Q3 FY07 INR	as a %	Growth %
India	65	2,567	21	57	2,234	14	15
North America	76	2,978	24	149	5,883	38	(49)
Russia	28	1,094	9	25	976	6	12
Europe	103	4,048	33	110	4,330	28	(7)
Others	41	1,632	13	51	2,012	13	(19)
TOTAL	313	12,320	100	392	15,434	100	(20)

Business Highlights

- Revenues at Rs 12.3 billion in Q3 FY08 as against Rs 15 billion in Q3 FY07, representing a decrease of 20%.
- Revenues in the API business increase by 8% to Rs 2.9 billion in Q3 FY08 from Rs. 2.7 billion in Q3 FY07 primarily driven by growth in North America, Europe and India.
- Revenues in branded formulations business increase by 14% to Rs. 3.8 billion in Q3 FY08 from Rs. 3.4 billion in Q3 FY07 driven by growth in India, Russia and CIS.
- Revenues from North America generics business increase by 69% to Rs 1.7 billion excluding the benefit of upsides from authorized generics and ondansetron exclusivity in Q3 FY07.
- Revenues from organic segment of custom pharmaceuticals services business increase by 24% to Rs 456 million in Q3 FY08 from Rs 368 million in Q3 FY07.

- Revenues from betapharm at Rs. 2 billion in Q3 FY08 as compared to Rs. 2.7 billion in Q3 FY07. This decline is the result of (a) adjustment of rebate payments to insurance companies from revenues in Q3 FY08 and (b) ongoing supply constraints, year-on-year price declines as well as rupee appreciation against the Euro.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 2.9 billion in Q3 FY08 as against Rs 2.7 billion in Q3 FY 07, representing an increase of 8%.
- Revenues in India at Rs 566 million in Q3 FY08 as against Rs 482 million in Q3 FY07, representing an increase of 17%. This growth was driven by the increase in sales of ciprofloxacin, and ramipril.
- Revenues in North America increase by 89% to Rs. 999 million in Q3 FY08 from Rs. 527 million in Q3 FY07 driven by combination of new launches as well as new products under development.
- Revenues in Europe increase by 26% to Rs. 649 million in Q3 FY08 from Rs. 515 million in Q3 FY07 driven by combination of new launches as well as new products under development.
- Revenues in rest of the world markets decrease by 40% to Rs. 722 million in Q3 FY08 from Rs. 1.2 billion in Q3 FY07. The impact of higher sales from supplies of sertraline during 180-day exclusivity in Q3 FY07 partially offset by the increase in revenues from Japan and other markets in Q3 FY08..
- The Company filed 7 US DMFs during the quarter taking the total filings to 117.

API - Geographic Mix

(in million)

	Q3 FY08 \$	Q3 FY08 INR	as a %	Q3 FY07 \$	Q3 FY07 INR	as a %	Growth %
North America	25	999	34	13	527	19	89
India	14	566	19	12	482	18	17
Europe	17	649	22	13	515	19	26
ROW	18	722	25	31	1,205	44	(40)
TOTAL	74	2,936	100	69	2,729	100	8

Generic Finished Dosages

- Revenues in this segment at Rs 4.2 billion in Q3 FY08 as against Rs 7.7 billion in Q3 FY07.
- North America contributed 42% and Europe contributed 58% to the segment revenues.
- In North America, revenues at Rs. 1.7 billion in Q3 FY08 as against Rs. 4.6 billion in Q3 FY07. Q3 FY07 included Rs 3.6 billion in revenues from the authorized generics products for which exclusivity ended in December 2006 and ondansetron exclusivity revenues, which commenced towards the end of December 2006. Excluding these revenues in Q3 FY07, the revenues increase by 69% from Rs 1 billion in Q3 FY07 to Rs 1.7 billion in Q3 FY08.
 - Revenues from fexofenadine, generic version of Allegra® at Rs. 395 million.
 - Revenues from finasteride, generic version of Proscar® at Rs. 428 million.
 - During the quarter, the company launched 2 new products; omeprazole and amlodipine besylate.
- In Europe revenues decrease to Rs. 2.4 billion in Q3 FY08 compared to Rs. 3 billion in Q3 FY07.
 - Revenues from betapharm (Germany) at Rs. 2.0 billion in Q3 FY08 as compared to Rs. 2.7 billion in Q3 FY07. This decline is the result of (a) adjustment of rebate payments to insurance companies from revenues in Q3 FY08 and (b) ongoing supply constraints, year-on-year price declines as well as rupee appreciation against the Euro.
 - During the quarter, the company was among the first few to launch olanzapine tablets pending a final court decision. The company also launched risperidone film coated tablets.
 - Revenues from rest of Europe at Rs. 385 million in Q3 FY08 as against Rs 371 million in Q3 FY07.
- In Q3 FY08, the Company filed 5 ANDA taking the total filings this year to 14. The Company also received approval (including tentative) for 18 ANDAs.

Branded Finished Dosages - International

- Revenues at Rs 1.9 billion in Q3 FY08, an increase of 12% over Q3 FY07. This increase was driven by growth primarily in Russia and CIS markets.
- Revenues in Russia increase by 12% to Rs. 1,094 million in Q3 FY08 as against Rs. 976 million in Q3 FY07. This growth was primarily driven by increase in sales from key brands of Keterol and Omez as well as the contribution from new products launches. During the quarter, the company launched Irinotecan injection.
- Revenues in CIS markets increase by 25% to Rs 409 million in Q3 FY08 as against Rs 327 million in Q3 FY07. This growth was primarily driven by increase in sales across key markets.

By Geography*(in million)*

Country	Q3 FY08 \$	Q3 FY08 INR	as a %	Q3 FY07 \$	Q3 FY07 INR	as a %	Growth%
Russia	28	1,094	59	25	976	59	12
CIS	10	409	22	8	327	20	25
Europe (Central & Eastern)	3	126	7	3	134	8	(6)
ROW	6	233	12	6	228	13	2
Total	47	1,862	100	42	1,665	100	12

Branded Finished Dosages - India

- Revenues at Rs 1.9 billion in Q3 FY08 as compared to Rs. 1.7 billion in Q3 FY07, representing an increase of 16%. This growth was primarily driven by growth in key brands of Omez, Stamlo, Stamlo Beta, Razo and Atocor and the launch of Reditux.
- As per ORG IMS November MAT 2007, the company recorded a growth of 13% against the market growth rate of 12.3%.

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

Brand	Q3 FY08			Q3 FY07			Growth%
	\$	INR	as a %	\$	INR	as a %	
Omez	6	231	12	5	208	12	11
Nise	5	216	11	6	221	13	(3)
Stamlo	3	100	5	2	86	5	16
Razo	2	74	4	1	57	3	30
Stamlo Beta	2	71	4	2	64	4	11
Atocor	2	60	3	1	47	3	28
Mintop	1	43	2	1	29	2	47
Clamp	1	43	2	1	33	2	28
Enam	1	42	2	1	41	2	3
Reditux	1	42	2	-	-	-	-
Others	27	1,070	54	24	937	54	14
Total	51	1,992	100	44	1,723	100	16

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

Therapeutic Segment	Q3 FY 08			Q3 FY07			Growth%
	\$	INR	as a %	\$	INR	as a %	
Gastro Intestinal	9.4	372	19	8.2	322	19	16
Cardiovascular	9.0	355	18	7.4	293	17	21
Pain	6.3	249	13	6.3	250	15	0
Oncology	4.8	190	10	3.7	145	8	31
Paediatrics	4.6	182	9	3.6	143	8	27
Diabetic Care	3.4	136	7	2.9	114	7	20
Anti Infectives	2.7	107	5	2.2	88	5	22
Dermatology	2.7	107	5	2.2	85	5	25
Nutraceuticals	1.6	65	3	1.6	64	4	2
Urology	1.6	63	3	1.3	51	3	25
Dental	1.6	63	3	1.4	56	3	14
Respiratory	1.3	53	3	1.2	48	3	11
Women's Health Care	0.6	23	1	0.7	28	2	-20
Surgery	0.6	22	1	0.7	28	2	-19
Nephrology	0.1	3	0	0.0	2	0	65
Others	0.0	1	0	0.2	8	0	-87
Total	51	1,992	100	44	1,723	100	16

Custom Pharmaceutical Services (CPS)

- Revenues from CPS at Rs. 1.3 billion in Q3 FY08 as compared to Rs 1.6 billion in Q3 FY07, representing a decline of 18.5%.
 - Revenues from CPS organic business increase by 24% to Rs 456 million in Q3 FY08 from Rs 368 million in Q3 FY07.
 - Revenues from Mexico decrease by 31% to Rs. 823 million in Q3 FY08 as compared to Rs. 1.2 billion in Q3 FY07.

Income Statement Highlights

- Gross profits at Rs. 6 billion in Q3 FY08 as against Rs. 6.7 billion in Q3 FY07. Gross profit margins on total revenues at 49% as against 44% in Q3 FY07. In Q3 FY07, revenues from authorized generics contributed 22% to total revenues and earned gross margins significantly below company average gross margin. In Q3 FY08, the gross profit margin is lower than the H1FY08 average on account of rebate payments to insurance companies in Germany adjusted in net revenues and change in business mix.
- R&D investments (net) at 7% of total revenues as against 4% in Q3 FY07. Gross R&D investments increase by 9% to Rs 910 million as against Rs 832 million in Q3 FY07. In Q3 FY07, the Company recognized Rs. 156 million under its R&D partnerships as a benefit to the R&D line item as compared to Rs. 16 million in Q3 FY08.

- Selling, General & Administration (SG&A) expenses increase by 4% to Rs 3.8 billion. As % to revenues, the SG&A ratio to revenue is at 31% in Q3 FY08.
- Forex gain of Rs 87 million in Q3 FY08 as compared to a loss of Rs 49 million in Q3 FY07.
- Amortization at Rs. 379 million in Q3 FY08 as compared to Rs. 330 million in Q3 FY07.
- Additional amortization of certain product related intangible assets at betapharm of Rs. 2,361 million in Q3 FY08.
- Net income at Rs (847) million as against Rs 1,879 million in Q3 FY07. This translates to a diluted EPS of Rs (5.04) as against Rs 11.73 in Q3 FY07.

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