

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q1 FY07 Financial Performance Review

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Q1 FY07 USGAAP

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 45.87

EXTRACT FROM THE UNAUDITED INCOME STATEMENT

Particulars	Q1 FY07			Q1 FY06			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues	306	14,049	100	122	5,591	100	151%
Cost of revenues	174	7,960	57	58	2,663	48	199%
Gross profit	133	6,089	43	64	2,929	52	108%
Selling, General & Administrative Expenses	73	3,346	24	43	1,954	35	71%
R&D Expenses ⁽¹⁾	12	533	4	11	515	9	3%
Amortization Expenses	8	388	3	2	96	2	304%
Other operating (income)/expense net ⁽²⁾	(2)	(70)	0	1	37	1	NC
Operating income before forex loss/(gain)	41	1,892	13	7	328	6	477%
Forex Loss/ (Gain)	2	74	1	1	66	1	12%
Operating income/(loss)	40	1,817	13	6	262	5	NC
Equity in loss of affiliates	0	-	0	0	15	0	-100%
Other expenses/(income) net	5	212	2	-4	(173)	-3	NC
Income before income taxes and minority interest	35	1,605	11	9	420	8	282%
Income tax (benefit)/expense	5	208	1	2	73	1	185%
Minority interest	0	0	0	0	0	0	NC
Net income	30	1,398	10	8	347	6	303%
DEPS	0.40	18.15		0.10	4.53		
Key Balance Sheet Items							
	As on 30th June 06			As on 31st March 06			
Cash and cash equivalents	173	7,928		213	9,788		
Borrowings from banks (Short + Long)	726	33,288		676	30,995		
Accounts receivable, net of allowances	210	9,651		105	4,802		
Inventories	192	8,786		150	6,895		
Property, plant and equipment, net	208	9,557		198	9,086		

(1) Income recognition under Generics R&D partnership with ICICI venture amounting to Rs 158 million in Q1 FY 07 against Rs. 78 million in Q1 FY 06. Reimbursement of expenses from Perlecan Pharma Private Limited of Rs. 86 million

(2) Includes the last tranche of consideration related to the Goa amounting to Rs. 63 million

Revenue Mix by Segment
(in million)

	Q1 FY07	Q1 FY07	as a %	Q1 FY06	Q1 FY06	as a %	Growth %
	\$	INR		\$	INR		
APIs	50	2,301	16	42	1,910	34	20
India	13	625	27	12	571	30	9
International	37	1,676	73	30	1,339	70	25
Branded Formulations	73	3,337	24	56	2,578	46	29
India	35	1,615	48	31	1,417	55	14
International	38	1,722	52	25	1,161	45	48
Generics	147	6,737	48	19	878	16	667
Emerging Business	4	198	1	3	153	3	29
Custom pharmaceutical services	31	1,418	10	2	72	1	NC
Others	1	58	0	0	-	0	
Total	306	14,049	100	122	5,591	100	151

Revenue Mix by Geography
(in million)

	Q1 FY07	Q1 FY07	As a %	Q1 FY06	Q1 FY06	as a %	Growth %
	\$	INR		\$	INR		
India	52	2,393	17	45	2,085	37	15
North America	106	4,856	35	14	661	12	NC
Russia	25	1,125	8	17	776	14	45
Europe	71	3,247	23	23	1,033	18	214
Others	53	2,428	17	23	1,036	19	134
TOTAL	306	14,049	100	122	5,591	100	151

Business Highlights

- Revenues at Rs 14.0 billion as against Rs 5.6 billion in Q1 FY06. YoY growth of 151%.
 - Revenues from international markets at Rs. 11.7 billion; Contribute 83% to total revenues
 - Revenues from India increase by 15% to Rs. 2.4 billion.
- Revenues from authorized generics contribute 24% and acquisitions contribute 23% to total revenues.
- Revenues from core businesses (excluding the revenues from authorized generics and acquisitions), increase by 34% to Rs 7,462 million from Rs 5,587 million.
- Revenues in the API business increase by 20% to Rs 2.3 billion in Q1 FY07 from Rs. 1.9 billion in Q1 FY 06 led by growth in key international markets.
- Revenues in branded finished dosage business increase by 29% to 3.3 billion in Q1 FY07 from Rs. 2.6 billion in Q1 FY06 driven by growth across key countries.
 - Revenues from international markets increase by 48% to Rs. 1.7 billion, driven by growth in Russia as well as the CIS region.
 - Revenues from India increase by 14% to Rs. 1.6 billion, driven by growth in key brands.
- Revenues in North America generics finished dosage business increase to Rs. 4,304 million as compared to Rs. 307 million in Q1 FY06. This growth was primarily driven by launch of three key products during the quarter. Simvastatin and finastride launched as authorized generic versions of Merck's Zocor® and Proscar® together contributed net revenues of Rs. 3,346 million.
- Revenues in Europe finished dosage business at Rs 2,433 million as against Rs 571 million in Q1 FY06. Revenues from acquisition in Germany contribute Rs. 1,998 million. Excluding the benefit of the acquisition, revenues decline to Rs. 426 million in Q1 FY 07 from Rs. 571 million in Q1 FY 06 primarily on account of price decline of omeprazole and amlodipine maleate in U.K.
- Revenues from custom pharmaceuticals services business increase to Rs 1,418 million from Rs 72 million in Q1 FY06. Revenues from the acquisition in Mexico contributed Rs. 1,241 million. Excluding contribution from the acquisition, revenues increase from Rs. 72 million to Rs. 177 million, driven by growth in customer base and product portfolio.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 2.3 billion as against Rs 1.9 billion in Q1 FY06. YoY growth of 20%
- Revenues outside India at Rs 1.7 billion as against Rs 1.3 billion in Q1 FY06. YoY growth of 25% driven by growth in key markets. Contribute 73% of total segment revenues
- Revenues in Europe grew by 21% to Rs. 439 million in Q1 FY 07 from Rs. 362 million in Q1 FY 06 primarily led by growth of key products of sumatriptan, doxazosin and naproxen sodium.
- Revenues in rest of the world markets increase by 27% to Rs. 816 million from Rs. 641 million primarily driven by growth in key markets.
- Revenues in North America increase by 25% to Rs 420 million as against Rs 336 million in Q1 FY06. This growth was largely driven by increase in sales of development products.
- Revenues in India at Rs 625 million as against Rs 571 million in Q1 FY06. YoY growth of 9% primarily on account of increase in sales of ciprofloxacin, ranitidine & terbinafine.
- The Company filed 2 US DMFs during the quarter taking the total filings to 83. The company also filed 1 DMF each in Canada and Europe.

API - Geographic Mix

(in million)

	Q1 FY07 \$	Q1 FY07INR	As a %	Q1 FY06 \$	Q1 FY06 INR	as a %	Growth%
North America	9	420	18	7	336	18	25
India	14	625	27	12	571	30	9
Europe	10	439	19	8	362	19	21
ROW	17	816	35	14	641	34	27
TOTAL	50	2,300	99	41	1,910	101	20

Generic Finished Dosages

- Revenues in this segment at Rs 6,737 million as against Rs 878 million in Q1 FY06.
- North America contributed 64% and Europe contributed 36% to the segment revenues.
- In North America, revenues increase to Rs.4,304 million in Q1 FY 07 from Rs. 306 million in Q1 FY 06. Combined revenues of simvastatin and finastride at Rs. 3,346 million. Fexofenadine launched in April contributed Rs. 503 million in revenues. Excluding revenues from authorized generics and fexofenadine, revenues increase by 46% to Rs. 453 million.

- In Europe revenues increase to Rs. 2,433 million in Q1 FY 07 from Rs. 571 million in Q1 FY 06. Revenues from acquisition in Germany contribute Rs. 1,998 million. The prices of key products of amlodipine and omeprazole declined in U.K. resulting in 25% decline in revenues to Rs 426 million from Rs 571 million in Q1 FY06.
- During the quarter, the Company filed 7 ANDAs, including 4 non Para IVs. This takes the total ANDAs pending at the USFDA to 55.

Branded Finished Dosages - International

- Revenues at Rs 1.7 billion, an increase of 48% over Q1 FY06. The growth was primarily driven by the performance of Russia & CIS markets.
- Revenues in Russia increase by 45% to Rs. 1,094 million as against Rs 754 million in Q1 FY06. This growth was primarily driven by increase in sales from key brands of Omez, Nise, Ciprolet and Keterol.
- Revenues in CIS markets increase by 56% to Rs 320 million as against Rs 206 million in Q1 FY06. This growth was primarily driven by increase in sales from Ukraine and Kazakhstan.
- Revenues in RoW markets increase by 36% to Rs 201 million as against Rs 147 million in Q1 FY06. The growth was primarily driven by increase in sales from South Africa, Jamaica, and Vietnam.
- Revenues in Central and Eastern Europe grew by 95% to Rs 106 million as against Rs 55 million in Q1 FY06. This growth was mainly on account of growth in Romania partially offset by decline in Albania.

Geographic Mix

(in million)

Country	Q1 FY07 \$	Q1 FY07INR	As a %	Q1 FY06 \$	Q1 FY06 INR	as a %	Growth%
Russia	24	1,094	64	17	754	65	45
CIS	7	320	19	5	206	18	55
Europe (Central & Eastern)	2	106	6	1	55	5	93
ROW	5	201	12	3	147	13	37
Total	38	1,721	101	26	1,163	101	48

Branded Finished Dosages - India

- Revenues at Rs 1.6 billion, increase of 14%, from 1.4 billion in Q1 FY06.
- Growth was primarily driven by growth in key brands of Omez, Nise, Stamlo and Recliment.
- New products launched during the quarter contributed Rs. 35 million to revenues.

Branded Formulations – India - Revenues by Therapies

(in million)

Therapeutic Segment	Q1 FY07			Q1 FY06			Growth%
	\$ Mn	Rs Mn	as a %	\$ Mn	Rs Mn	as a %	
Cardiovascular	7.1	325	20%	6.5	296	21%	10%
Gastro Intestinal	7.1	326	20%	5.8	266	19%	23%
Pain	5.1	234	14%	4.2	192	14%	22%
Diabetic Care	2.7	125	8%	2.7	122	9%	2%
Paedia	3.1	140	9%	2.6	120	8%	17%
Neutraceuticals	1.9	86	5%	1.7	76	5%	13%
Dermatology	1.4	63	4%	1.6	73	5%	-13%
Anti Infectives	2.0	93	6%	1.6	72	5%	29%
Dental	1.4	63	4%	1.3	59	4%	7%
Urology	1.1	50	3%	0.9	43	3%	17%
Women's Health							
Care	0.8	38	2%	0.8	38	3%	0%
Surgery	0.8	36	2%	0.7	33	2%	10%
Respiratory	0.8	36	2%	0.6	27	2%	34%
Total	35.2	1,616	100%	30.9	1,417	100%	14%

Note : Due to revised therapeutic segments, revenues of the previous year have been regrouped.

Branded Formulations – India - Revenues by Key brands

(in million)

Brand	Q1 FY07			Q1 FY06			Growth%
	\$ Mn	Rs Mn	as a %	\$ Mn	Rs Mn	as a %	
ANTOXID	0.6	27	2%	0.7	31	2%	-12%
ATOCOR	1.0	45	3%	1.0	47	3%	-5%
ENAM	1.1	51	3%	1.1	50	4%	1%
MINTOP	0.6	28	2%	0.6	27	2%	2%
NISE	4.7	214	13%	4.0	182	13%	18%
OMEZ	4.7	215	13%	3.8	172	12%	25%
RAZO	1.0	47	3%	0.6	27	2%	77%
RECLIMET	0.8	34	2%	0.7	33	2%	3%
STAMLO	2.4	108	7%	2.1	96	7%	13%
STAMLO							
BETA	1.5	69	4%	1.4	64	4%	9%
Others	17.0	778	48%	15.0	688	49%	13%
Total	35.2	1,616	100%	30.9	1,417	100%	14%

Custom Pharmaceutical Services (CPS)

- Revenues from CPS increase to Rs 1,418 million from Rs 72 million in Q1 FY06. Revenues from acquisition in Mexico at Rs.1,241 million. Excluding this, revenues increase to Rs. 177 million from Rs. 77 million. This growth was driven by growth in customer base and product portfolio.

Emerging Business

- Revenues in the critical care & biotechnology segment at Rs. 198 million, an increase of 29%.

Income Statement Highlights

- Gross profits increase to Rs. 6.1 billion in Q1 FY 07 from Rs. 2.9 billion in Q1 FY 06. Gross profit margins on total revenues at 43% as against 52% in Q1 FY06. Revenues from authorized generics contributed 24% to total revenues and earn gross margin which are significantly below company average gross margin.
- R&D investments (net) at 4% of total revenues as against 9% in Q1 FY06. In absolute terms, R&D investments increase by 3% to Rs 533 million as against Rs 515 million in Q1FY06. During the quarter, the Company recognized a total of Rs 244 million under its R&D partnerships as a benefit to the R&D line item.
- Selling, General & Administration (SG&A) expenses increase by 71% to Rs 3.3 billion. This increase is primarily due to first full quarter of consolidation of the two acquisitions.
- Other expense (net) of Rs 212 million as against other income (net) of Rs 173 million in Q1 FY06. This is primarily on account of net interest expense of Rs. 254 million in Q1 FY07 as against net interest income of Rs. 153 million in Q1 FY06.
- Amortization at Rs. 388 million as compared to Rs. 96 million in Q1 FY06. This includes amortization of Rs. 311 million relating to intangibles in betapharm and acquisition in Mexico.
- Net income at Rs 1,398 million (10% of total revenues) as against Rs 347 million (6% of total revenues) in Q1 FY06. This translates to a diluted EPS of Rs 18.15 as against Rs 4.53 in Q1 FY06. This compares with diluted EPS of Rs. 21.24 for the full year FY 2005-06.
- During the quarter, the Company incurred capital expenditure (net) of Rs 781 million.

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