

**Dr Reddy's Laboratories Ltd.**  
NYSE:RDY  
**Q3 FY07 Financial Performance Review**

**Table of Contents**

*Q3 FY07 USGAAP*

Financial Snapshot	02
Revenue Mix	03
Active Pharmaceutical Ingredients	05
Generic Formulations	05
Branded Formulations	06
CPS	08
Emerging Business	08
Income Statement Highlights	09

All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1 USD = Rs 44.11

### EXTRACT FROM THE UNAUDITED INCOME STATEMENT

	Q3 FY07			Q3 FY06			
Particulars	(\$)	(Rs.)	%	(\$)	(Rs.)	%	Growth %
<b>Total Revenues</b>	<b>350</b>	<b>15,434</b>	<b>100</b>	<b>134</b>	<b>5,926</b>	<b>100</b>	<b>160%</b>
Cost of revenues	197	8,690	56	66	2,910	49	199%
<b>Gross profit</b>	<b>153</b>	<b>6,744</b>	<b>44</b>	<b>68</b>	<b>3,016</b>	<b>51</b>	<b>124%</b>
Selling, General & Administrative Expenses	82	3,604	23	46	2,023	34	78%
R&D Expenses <sup>(1)</sup>	15	676	4	12	516	9	31%
Amortization Expenses	7	330	2	2	86	1	284%
Other operating (income)/expense net	0	(21)	0	(9)	(386)	(7)	NC
<b>Operating income before forex loss/(gain)</b>	<b>49</b>	<b>2,154</b>	<b>14</b>	<b>18</b>	<b>776</b>	<b>13</b>	<b>178%</b>
Forex Loss/ (Gain)	1	49	0	1	29	0	69%
<b>Operating income/(loss)</b>	<b>48</b>	<b>2,105</b>	<b>14</b>	<b>17</b>	<b>747</b>	<b>13</b>	<b>182%</b>
Equity in loss of affiliates	0	12	0	0	(9)	0	NC
Other expenses/(income) net	5	241	2	(4)	(177)	(3)	NC
<b>Income before income taxes and minority interest</b>	<b>42</b>	<b>1,852</b>	<b>12</b>	<b>21</b>	<b>916</b>	<b>15</b>	<b>102%</b>
Income tax (benefit)/expense	-1	(27)	0	7	287	5	NC
Minority interest	0	0	0	0	(1)	0	NC
<b>Net income</b>	<b>43</b>	<b>1,879</b>	<b>12</b>	<b>14</b>	<b>628</b>	<b>11</b>	<b>199%</b>
<b>DEPS</b>		<b>11.73</b>			<b>4.09</b>		
Exchange rate		44.11			44.11		
<b>Key Balance Sheet Items</b>							
	<b>As on 31st Dec 06</b>			<b>As on 30th Sep 06</b>			
Cash and cash equivalents	<b>390</b>	<b>17,206</b>		<b>213</b>	<b>9,375</b>		
Borrowings from banks (Short + Long)	<b>632</b>	<b>27,858</b>		<b>734</b>	<b>32,361</b>		
Accounts receivable, net of allowances	<b>137</b>	<b>6,028</b>		<b>223</b>	<b>9,828</b>		
Inventories	<b>194</b>	<b>8,545</b>		<b>224</b>	<b>9,898</b>		
Property, plant and equipment, net	<b>257</b>	<b>11,346</b>		<b>237</b>	<b>10,454</b>		

- Income recognition under Generics R&D partnership with ICICI Venture amounting to Rs 77 million in Q3 FY 07 against Rs. 112 million in Q3 FY 06 . Reimbursement of expenses from Perlecan Pharma Private Limited of Rs. 79 million in Q3 FY 07

## Revenue by Segment

(in million)

	Q3 FY07 \$	Q3 FY07 INR	as a %	Q3 FY06 \$	Q3 FY06 INR	as a %	Growth %
<b>APIs</b>	<b>62</b>	<b>2,729</b>	<b>18</b>	<b>48</b>	<b>2,108</b>	<b>36</b>	<b>29</b>
India	11	482	18	14	601	29	-20
International	51	2,247	82	34	1,507	71	49
<b>Branded Formulations</b>	<b>72</b>	<b>3,183</b>	<b>21</b>	<b>61</b>	<b>2,692</b>	<b>45</b>	<b>18</b>
India	36	1,577	50	30	1,332	49	18
International	36	1,606	50	31	1,360	51	18
<b>Generics</b>	<b>174</b>	<b>7,682</b>	<b>50</b>	<b>19</b>	<b>831</b>	<b>14</b>	<b>824</b>
<b>Emerging Business</b>	<b>5</b>	<b>204</b>	<b>1</b>	<b>4</b>	<b>171</b>	<b>3</b>	<b>19</b>
<b>Custom pharmaceutical services</b>	<b>36</b>	<b>1,569</b>	<b>10</b>	<b>2</b>	<b>101</b>	<b>2</b>	<b>1,453</b>
<b>Others</b>	<b>2</b>	<b>67</b>	<b>0</b>	<b>1</b>	<b>23</b>	<b>0</b>	
<b>Total</b>	<b>350</b>	<b>15,434</b>	<b>100</b>	<b>134</b>	<b>5,926</b>	<b>100</b>	<b>160</b>

## Revenue by Geography

(in million)

	Q3 FY07 \$	Q3 FY07 INR	as a %	Q3 FY06 \$	Q3 FY06 INR	as a %	Growth %
India	51	2,234	14	47	2,054	35	9
North America	133	5,883	38	21	915	15	543
Russia	22	976	6	19	823	14	19
Europe	98	4,330	28	19	837	14	417
Others	46	2,011	13	29	1,297	22	55
<b>TOTAL</b>	<b>350</b>	<b>15,434</b>	<b>99</b>	<b>135</b>	<b>5,926</b>	<b>100</b>	<b>160</b>

## Business Highlights

- Revenues at Rs 15.4 billion in Q3 FY07 as against Rs 5.9 billion in Q3 FY06 , representing an increase of 160%
  - Revenues from international markets increased by 241% at Rs. 13.2 billion
  - Contributed 86% to total revenues as compared to 65% in Q3 FY06
- Revenues from core businesses (excluding the contribution from authorized generics and acquisitions), increased by 38% to Rs 8.2 billion from Rs 5.9 billion.
- Revenues from authorized generics contributed 22% and acquisitions contributed 25% respectively to total revenues in Q3 FY 07.
- Revenues in the API business increased by 29% to Rs 2.7 billion in Q3 FY 07 from Rs. 2.1 billion in Q3 FY 06 primarily driven by contribution from sertraline.

- Revenues in branded formulations business increased by 18% to Rs. 3.2 billion in Q3 FY 07 from Rs. 2.7 billion in Q3 FY 06 driven by growth in India & Russia.
- Launch of ondansetron, generic version of Zofran® in the end of December 2006 with 180 day marketing exclusivity. Achieved sales of Rs. 223 million
- Revenues from betapharm (Germany) at Rs. 2,664 million in Q3 FY 07. This compares with revenues of Rs. 2,554 million in Q2 FY 07. Gross Profit margin for Q3 FY07 was at 56% as against 58% in Q2 FY07.
- Revenues from custom pharmaceuticals services business increased to Rs 1,569 million in Q3 FY 07 from Rs 101 million in Q3 FY 06.

#### ***Active Pharmaceutical Ingredients (APIs)***

- Revenues at Rs 2.8 billion in Q3 FY 07 as against Rs 2.1 billion in Q3 FY 06, representing an increase of 29%.
- Revenues outside India at Rs 2.2 billion in Q3 FY 07 as against Rs 1.5 billion in Q3 FY 06 , representing an increase of 49%. Such revenues contributed 82% of total segment revenues as compared to 72% in Q3 FY 06.
- Revenues in Europe grew by 34% to Rs. 515 million in Q3 FY 07 from Rs. 384 million in Q3 FY 06 primarily driven by sales of key products of sertraline and sumatriptan.
- Revenues in rest of the world markets increased by 62% to Rs. 1,205 million in Q3 FY 07 from Rs. 744 million in Q3 FY 06, primarily driven by sales of sertraline.
- Revenues in North America increased by 39% to Rs 527 million in Q3 FY 07 as against Rs 379 million in Q3 FY 06 driven by combination of existing products as well as new products under development.
- Revenues in India at Rs 482 million in Q3 FY 07 as against Rs 601 million in Q3 FY 06, representing decrease of 20%, primarily on account of volume decline in key products.
- The Company filed 15 US DMFs during the quarter taking the total filings to 101. The company also filed 3 DMFs in Canada.

**API - Geographic Mix***(in million)*

	<b>Q3 FY07 \$</b>	<b>Q3 FY07 INR</b>	<b>as a %</b>	<b>Q3 FY06 \$</b>	<b>Q3 FY06 INR</b>	<b>as a %</b>	<b>Growth %</b>
North America	12	527	19	9	379	18	<b>39</b>
India	11	482	18	14	601	29	<b>-20</b>
Europe	12	515	19	9	384	18	<b>34</b>
ROW	27	1205	44	17	744	35	<b>62</b>
<b>TOTAL</b>	<b>62</b>	<b>2729</b>	<b>100</b>	<b>49</b>	<b>2108</b>	<b>100</b>	<b>29</b>

**Generic Finished Dosages**

- Revenues in this segment at Rs 7,682 million in Q3 FY 07 as against Rs 831 million in Q3 FY 06.
- North America contributed 60% and Europe contributed 40% to the segment revenues.
- In North America, revenues increased to Rs. 4,630 million in Q3 FY 07 from Rs. 480 million in Q3 FY 06. Combined revenues of simvastatin and finasteride were at Rs. 3,385 million. Fexofenadine launched in April contributed Rs. 479 million and ondansetron launched on 26<sup>th</sup> Dec 2006 contributed Rs. 223 million in revenues during the quarter.
- In Europe revenues increased to Rs. 3,035 million in Q3 FY07 from Rs. 347 million in Q3 FY 06.
  - Revenues from betapharm (Germany) at Rs. 2,664 million in Q3 FY 07 as compared to Rs. 2,554 million in Q2 FY 07.
  - Revenues from UK market increased to Rs. 357 million in Q3 FY 07 from Rs 347 million in Q3 FY 06.
  - Revenues from Spain at Rs. 14.3 million.
- During the quarter, the Company filed 5 ANDAs and received final approval for 4 ANDAs. As at the end of December, the total ANDAs pending approval (including tentative) are 58.

**Branded Finished Dosages - International**

- Revenues at Rs 1.6 billion in Q3 FY 07, an increase of 18% over Q3 FY 06. This growth was primarily driven by strong growth in key markets.
- Revenues in Russia increased by 18% to Rs. 950 million in Q3 FY 07 as against Rs 803 million in Q3 FY 06. This growth was primarily driven by increase in sales from key brands of Nise, Cetrine and Keterol as well as new product launched during the year.
- Revenues in CIS markets increased by 19% to Rs 321 million in Q3 FY 07 as against Rs 271 million in Q3 FY 06. This growth was primarily driven by increase in sales from Ukraine, Belarus and Uzbekistan.

- Revenues in Central and Eastern Europe grew by 60% to Rs 119 million in Q3 FY 07 as against Rs 74 million in Q3 FY 06. This growth was mainly on account of growth in Romania partially offset by decline in Albania.

***By Geography***

*(in million)*

Country	Q3 FY07 \$	Q3 FY07INR	As a %	Q3 FY06 \$	Q3 FY06 INR	as a %	Growth%
Russia	22	950	59	18	803	59	18
CIS	7	321	20	6	271	20	18
Europe (Central & Eastern)	3	119	7	2	74	5	61
ROW	5	216	13	5	212	16	2
<b>Total</b>	<b>37</b>	<b>1606</b>	<b>99</b>	<b>31</b>	<b>1360</b>	<b>100</b>	<b>18</b>

***Branded Finished Dosages - India***

- Revenues were at Rs 1.6 billion in Q3 FY 07 as compared to Rs. 1.3 billion in Q3 FY 06, representing an increase of 18%, This growth was primarily driven by growth in key brands of Omez, Nise and Razo.
- New products launched during the year, totaling 18, contributed Rs. 71 million in revenues in Q3 FY07.

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

Therapeutic Segment	Q3 FY 07			Q3 FY06			Growth%
	USD Mn	Rs Mn	as a %	USD Mn	Rs Mn	as a %	
Gastro Intestinal	7	327	21%	6	249	19%	32%
Cardiovascular	7	293	19%	6	261	20%	12%
Pain	6	250	16%	4	194	15%	29%
Paediatrics	3	141	9%	3	127	10%	11%
Diabetic Care	3	114	7%	2	104	8%	9%
Anti Infectives	2	88	6%	2	71	5%	24%
Neutraceuticals	2	76	5%	2	72	5%	6%
Dermatology	2	72	5%	2	73	5%	-1%
Dental	1	56	4%	1	50	4%	11%
Urology	1	54	3%	1	41	3%	32%
Respiratory	1	48	3%	1	40	3%	19%
Women's Health Care	1	28	2%	1	26	2%	9%
Nephrology	0	2	0%				
Surgery	1	28	2%	1	24	2%	500%
<b>Total</b>	<b>36</b>	<b>1,577</b>	<b>100%</b>	<b>30</b>	<b>1,332</b>	<b>100%</b>	<b>18%</b>

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

Brand	Q3 FY07			Q3 FY06			Growth%
	\$ Mn	Rs Mn	as a %	\$ Mn	Rs Mn	as a %	
Nise	5.0	221	14.0%	4.0	178	13.4%	24.4%
Omez	4.7	208	13.2%	3.8	166	12.5%	25.1%
Stamlo	1.9	86	5.4%	1.8	81	6.1%	6.1%
Stamlo Beta	1.4	64	4.0%	1.5	67	5.0%	-4.7%
Enam	0.9	41	2.6%	0.9	39	2.9%	4.5%
Atacor	1.1	47	3.0%	0.9	38	2.9%	23.9%
Razo	1.3	57	3.6%	0.7	31	2.3%	84.0%
Clamp	0.8	33	2.1%	0.7	31	2.3%	7.1%
Reclimet	0.7	31	2.0%	0.6	27	2.0%	14.5%
Mintop	0.7	29	1.9%	0.6	26	2.0%	12.8%
Others	17.2	760	48.2%	14.7	648	48.6%	17.4%
<b>Total</b>	<b>35.8</b>	<b>1,577</b>	<b>100%</b>	<b>30.2</b>	<b>1,332</b>	<b>100%</b>	<b>18.5%</b>

**Custom Pharmaceutical Services (CPS)**

- Revenues from CPS increased to Rs 1,569 million in Q3 FY 07 from Rs 101 million in Q3 FY 06.
  - Revenues from the acquisition in Mexico at Rs. 1,197 million in Q3 FY 07 as compared to Rs. 1,434 million in Q2 FY 07
  - Excluding contribution from the acquisition, revenues increased from Rs. 101 million in Q3 FY 06 to Rs. 371 million in Q3 FY 07, driven by growth in customer base and product portfolio.

### ***Emerging Business***

- Revenues in the critical care & biotechnology segment at Rs. 204 million, an increase of 20 %.

### **Income Statement Highlights**

- Gross profits increased to Rs. 6.7 billion in Q3 FY 07 from Rs. 3.0 billion in Q3 FY 06. Gross profit margins on total revenues at 44% as against 51% in Q3 FY 06. Revenues from authorized generics contributed 22% to total revenues and earned gross margin which are significantly below company average gross margin.
- R&D investments (net) at 4% of total revenues as against 9% in Q3 FY 06. Gross R&D investments increased by 32% to Rs 832 million as against Rs 628 million in Q3 FY 06. During the quarter, the Company recognized Rs 156 million under its R&D partnerships as a benefit to the R&D line item as compared to Rs. 112 million recognized in Q3 FY 06
- Selling, General & Administration (SG&A) expenses increased by 78% to Rs 3.6 billion. This increase is primarily on account of consolidation of the two acquisitions. As % to revenues adjusted for authorized generics, the SG&A ratio to sales is at 30%.
- Other expense (net) was Rs 241 million as against other income (net) of Rs 177 million in Q3 FY 06. This is primarily on account of net interest expense of Rs.309 million in Q3 FY 07 as against net interest income of Rs. 146 million in Q3 FY 06.
- Amortization was Rs. 330 million as compared to Rs. 86 million in Q3 FY 06. This includes amortization of Rs. 264 million relating to intangibles in betapharm, Spain (acquisition of products) and acquisition in Mexico.
- Net income at Rs 1,879 million (12% of total revenues) as against Rs 653 million (11% of total revenues) in Q3 FY 06. This translates to a diluted EPS of Rs 11.73 as against Rs 4.09 in Q3 FY 06.
- During Q3 FY 07, the Company incurred capital expenditure (net) of Rs 1,212 million.