

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q1 FY05 Financial Performance Review

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Q1 FY05 USGAAP

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 45.99

EXTRACTED FROM THE UNAUDITED INCOME STATEMENT

Particulars	Q1 FY05			Q1 FY04			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Net Product Revenues	106	4,856	95	105	4,812	100	1
License Fees	5	252	5	0	0	-	-
Total Revenues	111	5,108	100	105	4,812	100	6
Cost of revenues	54	2,482	49	47	2,162	45	15
Gross profit	57	2,626	51	58	2,650	55	(1)
Selling, General & Administrative Expenses	36	1,645	32	32	1,464	30	12
R&D Expenses	11	525	10	7	326	7	61
Amortization Expenses	2	89	2	2	96	2	(8)
Operating Income (before Forex (Gain)/Loss)	8	366	7	17	764	16	(52)
Forex Loss/ (Gain)	7	323	6	(2)	(78)	(2)	-
Operating income (after Forex (Gain)/Loss)	1	44	1	18	842	18	(95)
Equity in loss of affiliates	0	11	0	0	14	0	(20)
Other expenses/(income) net	(2)	(112)	(2)	(3)	(141)	(3)	(21)
Income before income taxes and minority interest	3	144	3	21	969	20	(85)
Income tax (benefit)/expense	(1)	(25)	(0)	4	177	4	(114)
Minority interest	0	(5)	(0)	0	0	-	-
Net income	4	173	3	17	792	16	(78)
Diluted EPS	0.05	2.27		0.22	10.35		(78)
Exchange rate	45.99			45.99			
Key Balance Sheet Items	June 04	June 04		March 04	March 04		
Cash and cash equivalents	90	4,134		95	4,376		
Investment securities	119	5,467		89	4,100		
Accounts receivable, net of allowances	91	4,165		81	3,730		
Inventories	72	3,306		66	3,032		
Property, plant and equipment, net	145	6,661		138	6,331		

Revenue Mix by Segment

(in million)

	Q1 FY05 \$	Q1 FY05 INR	as a %	Q1 FY04 \$	Q1 FY04 INR	as a %	Growth %
APIs	42	1,941	38	36	1,655	34	17
India	14	642	33	10	481	29	33
International	28	1,299	67	26	1,174	71	11
Branded Formulations	43	1,982	39	40	1,822	38	9
India	26	1,190	60	26	1,202	66	(1)
International	17	792	40	13	620	34	28
Generics	18	812	16	26	1,198	25	(32)
Emerging Business	3	127	2	2	82	2	55
Custom Chemical Business	0	10	0	1	24	0	(58)
Others	0	0	0	1	31	1	(100)
Drug Discovery	5	236	5	0	0	0	-
Total	111	5,108	100	105	4,812	100	6

Revenue Mix by Geography

(in million)

	Q1 FY05 \$	Q1 FY05 INR	as a %	Q1 FY04 \$	Q1 FY04 INR	as a %	Growth %
India	41	1,903	37	38	1,749	36	9
North America	23	1,051	21	34	1,554	32	(32)
Russia	11	525	10	9	435	9	21
Europe	20	907	18	9	412	9	120
Others	16	722	14	14	662	14	9
TOTAL	111	5,108	100	105	4,812	100	6

Business Highlights

- Revenues at Rs 5.1 billion as against Rs 4.8 billion in Q1FY04. YoY growth of 6%.
- During the quarter, the Company accounted for the upfront license fees of Rs 236 million, received in September 2001, relating to DRF 4158, on completion of all obligations under the agreement. In FY02, the Company had deferred this revenue in accordance with the USGAAP requirements.
- Revenues outside India at Rs 3.2 billion as against Rs 3.1 billion in Q1 FY04. YoY growth of 5%.
- International revenues in Branded Formulations segment at Rs 792 million, an increase of 28% over Q1 FY04. The growth was primarily driven by the performance of Russia and allied markets.

- Product revenues in Europe at Rs 655 million as against Rs412 million in Q1FY04. YoY growth of 59% driven by sales of ramipril API of Rs. 259 million.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 1.9 billion as against Rs 1.7 billion in Q1FY04. YoY growth of 17%
- Revenues outside India at Rs 1.3 billion as against Rs 1.2 billion in Q1FY04. YoY growth of 11%.
- Europe contributed 18% of total revenues as against 8% in Q1 FY04. Revenue growth was driven by sales of ramipril, which contributed Rs 259 million in revenues.
- The Company filed 1 US DMF during the quarter taking the total filings to 57.
- Revenues in India at Rs 641 million as against Rs 481 million in Q1 FY04. YoY growth of 33% driven primarily by volume growth in key products.

API - Geographic Mix

(in million)

	Q1 FY05 \$	Q1 FY05 INR	As a %	Q1 FY04 \$	Q1 FY04 INR	as a %	Growth%
India	14	641	33	10	481	29	33
Europe	8	353	18	3	126	8	180
North America	11	521	27	13	575	35	(10)
Others	9	426	22	10	472	29	(10)
TOTAL	42	1,941	100	36	1,655	100	17

Generic Formulations

- Revenues in this segment at Rs 812 million as against Rs 1.2 billion in Q1 FY04.
- North America contributed 64% to the total revenues and Europe contributed 36%.
- Fluoxetine capsules 40mg and tizanidine tablets 2 & 4 mg together contributed revenues of Rs293 million as against Rs 788 million in Q1FY04. The revenues declined on account of increased competition over the last four quarters. The revenues of Rs293 million in Q1 FY05 compare with revenues of Rs349 million in Q4FY04.
- Revenues in Europe grew by 30% to Rs 289 million as against Rs 223 million in Q1 FY04. The growth was driven by the launch of Amlodipine Maleate in Europe.
- During the quarter, the Company filed 2 ANDAs with Para IV certifications including 1 first-to-file (FTF). This takes the total ANDAs pending at the USFDA to 37. Of these, 26 are Para IVs addressing innovator sales of USD 22 billion (IMS Sept MAT 2003)

Branded Formulations - International

- Revenues at Rs 792 million, an increase of 28% over Q1 FY04. The growth was primarily driven by the performance of Russia and allied markets.
- Revenues in Russia grew by 21% to Rs511 million as against Rs424 million in Q1 FY04. The growth was driven primarily by the performance of the key brands of Omez, Keterol and Nise.
- Other CIS markets grew by 55% to Rs152 million as against Rs 98 million in Q1 FY04. The growth was driven primarily by key markets of Ukraine and Belarus.

Geographic Mix

(in million)

Region	Q1 FY05 \$	Q1 FY05 INR	as a %	Q1 FY04 \$	Q1 FY04 INR	as a %	Growth %
Russia	11	511	65	9	424	68	21
Other CIS	3	152	19	2	98	16	55
Europe	1	29	4	0	24	4	19
ROW	2	100	12	2	74	12	35
Total	17	792	100	13	620	100	28

Branded Formulations - India

- Revenues at Rs1.2 billion, a marginal decrease of 1% over Q1 FY04.
- Omez, our brand of omeprazole increased by 13% to Rs174 million. During the quarter, Omez became the single largest selling brand of omeprazole in India.
- New product launches contributed 5% to the total revenues at Rs 57 million.
- Retoz, our brand of etoricoxib, launched in March 2004, is the third largest selling brand in that category, with sales of Rs24 million during the quarter.

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

Therapeutic Segment	Q1 FY05 \$	Q1 FY05 INR	as a %	Q1 FY04 \$	Q1 FY04 INR	as a %	Growth%
Gastro Intestinal	6	280	24	6	259	22	6
Cardiovascular	5	249	21	5	233	19	5
Pain Management	4	200	17	4	198	17	4
Anti Infectives	2	86	7	2	109	9	2
Diabetic Care	2	74	6	2	80	7	2
Nutraceuticals	1	62	5	2	100	8	1
Dental	1	48	4	1	39	3	1
Dermatology	1	47	4	1	44	4	1
Urology	1	38	3	1	26	2	1
Surgery	1	35	3	1	38	3	1
Central Nervous System	1	34	3	1	42	3	1
Respiratory	1	31	3	1	24	2	1
Gynecology	0	7	1	0	8	1	0
Total	26	1,190	100	26	1,202	100	26

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

Brand	Q1 FY05 \$	Q1 FY05 INR	as a %	Q1 FY04 \$	Q1 FY04 INR	as a %	Growth%
Omez	4	174	15	3	154	13	13
Nise	3	146	12	4	164	14	(11)
Stamlo	2	84	7	2	77	6	8
Enam	1	47	4	1	45	4	4
Stamlo Beta	1	46	4	1	48	4	(3)
Ciprolet	1	34	3	1	35	3	(3)
Atocor	1	30	3	0	22	2	38
Econorm	1	27	2	0	16	1	67
Reclide	1	26	2	1	25	2	5
Retoz	1	24	2	-	-	-	-
Others	12	551	46	13	615	51	(10)
Total	26	1,190	100	26	1,202	100	(1)

Other Businesses

- Revenues in the critical care & biotechnology segment increased to Rs 127 million.
- In Drug Discovery, the Company accounted for the upfront license fees of Rs 236 million, received in September 2001, relating to DRF 4158, on completion of all obligations under the agreement. In FY02, the Company had deferred this revenue in accordance with the USGAAP requirements.
- Revenues from Custom Chemical Services decreased to Rs 10 million from Rs 24 million in Q1 FY04.

Income Statement Highlights

- Gross Margins on total revenues at 51% as against 55% in Q1 FY04. This decline is primarily on account of the change in the geography and business mix.
- Investments in R&D increased by 61% to Rs 525 million from Rs 326 million in Q1FY04. As a %, R&D spend is at 10% of total revenues as against 7% in Q1 FY04. Of this, the Company invested 55% in drug discovery primarily on the ongoing clinical development of DRF 10945 in Canada.
- Selling, General & Administration (SG&A) expenses increased by Rs 181 million to Rs 1.6 billion. As a %, SG&A expenses are at 32% of total revenues as against 30% in Q1 FY04. This compares with the SG&A expenses of Rs 1.8 billion in Q4 FY04 before exceptional charges recorded for that quarter.
- Forex loss at Rs323 million as against a full year gain of Rs283 million for FY04 and a gain of Rs46 million in Q4FY04. This reversal is primarily on account of the change in the rupee-dollar parity during the quarter.
- Other income (net) is at Rs 112 million as against Rs 141 million in Q1 FY04.
- Depreciation for the quarter is at Rs 207 million as against Rs 172 million for Q1 FY04.
- Net income at Rs 173 million (3% of total revenues) as against Rs 792 million (16% of total revenues) in Q1FY04. This translates to a diluted EPS of Rs2.27 as against Rs10.35 in Q1 FY04.

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