

# **Dr Reddy's Laboratories Ltd.**

NYSE:RDY

## **Q2 FY05 Financial Performance Review**

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 45.91

# EXTRACTED FROM THE UNAUDITED INCOME STATEMENT

	Q2 FY05			Q2 FY04			
Particulars	(\$)	(Rs.)	%	(\$)	(Rs.)	%	Growth %
Net Product Revenues	118	5,400	100	117	5,377	100	0
License Fees	0	7	0	0	0	-	
<b>Total Revenues</b>	<b>118</b>	<b>5,407</b>	<b>100</b>	<b>117</b>	<b>5,377</b>	<b>100</b>	<b>1</b>
Cost of revenues	53	2,440	45	53	2,454	46	(1)
<b>Gross profit</b>	<b>65</b>	<b>2,967</b>	<b>55</b>	<b>64</b>	<b>2,923</b>	<b>54</b>	<b>2</b>
Selling, General & Administrative Expenses	38	1,729	32	32	1,471	27	18
R&D Expenses	14	627	12	11	490	9	28
Amortization Expenses	2	87	2	2	95	2	(8)
<b>Operating Income (before Forex (Gain)/Loss)</b>	<b>11</b>	<b>524</b>	<b>10</b>	<b>19</b>	<b>865</b>	<b>16</b>	<b>(39)</b>
Forex Loss/ (Gain)	1	49	1	(2)	(97)	(2)	NC
Operating income (after Forex (Gain)/Loss)	<b>10</b>	<b>475</b>	<b>9</b>	<b>21</b>	<b>962</b>	<b>18</b>	<b>(51)</b>
Equity in loss of affiliates	0	16	0	0	13	0	19
Other expenses/(income) net	(3)	(137)	(3)	(4)	(169)	(3)	(19)
<b>Income before income taxes and minority interest</b>	<b>13</b>	<b>597</b>	<b>11</b>	<b>24</b>	<b>1,118</b>	<b>21</b>	<b>(47)</b>
Income tax (benefit)/expense	2	85	2	4	190	4	(55)
Minority interest	0	(5)	(0)	0	0	-	-
<b>Net income</b>	<b>11</b>	<b>517</b>	<b>10</b>	<b>20</b>	<b>929</b>	<b>17</b>	<b>(44)</b>
<b>Diluted EPS</b>	<b>0.15</b>	<b>6.75</b>		<b>0.26</b>	<b>12.14</b>		
Exchange rate	45.91			45.91			
<b>Key Balance Sheet Items</b>	<b>Sept 04</b>	<b>Sept 04</b>		<b>June 04</b>	<b>June 04</b>		
Cash and cash equivalents	121	5,535		90	4,134		
Investment securities	58	2,673		119	5,467		
Accounts receivable, net of allowances	89	4,093		91	4,165		
Inventories	82	3,762		72	3,306		
Property, plant and equipment, net	148	6,799		145	6,661		

## Revenue Mix by Segment

(in million)

	Q2 FY05 \$	Q2 FY05 INR	as a %	Q2 FY04 \$	Q2 FY04 INR	as a %	Growth %
<b>APIs</b>	<b>40</b>	<b>1,821</b>	<b>34</b>	<b>44</b>	<b>2,021</b>	<b>38</b>	<b>(10)</b>
India	12	553	30	14	660	33	(16)
International	28	1,268	70	30	1,361	67	(7)
<b>Branded Formulations</b>	<b>50</b>	<b>2,314</b>	<b>43</b>	<b>43</b>	<b>1,970</b>	<b>37</b>	<b>17</b>
India	29	1,345	58	30	1,395	71	(4)
International	21	970	42	13	576	29	68
<b>Generics</b>	<b>23</b>	<b>1,043</b>	<b>19</b>	<b>27</b>	<b>1,243</b>	<b>23</b>	<b>(16)</b>
<b>Emerging Business</b>	<b>3</b>	<b>130</b>	<b>2</b>	<b>2</b>	<b>89</b>	<b>2</b>	<b>46</b>
<b>Custom Pharmaceuticals</b>	<b>2</b>	<b>98</b>	<b>2</b>	<b>1</b>	<b>28</b>	<b>1</b>	<b>246</b>
<b>Others</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>25</b>	<b>0</b>	<b>(100)</b>
<b>Drug Discovery</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-</b>
<b>Total</b>	<b>118</b>	<b>5,407</b>	<b>100</b>	<b>117</b>	<b>5,377</b>	<b>100</b>	<b>1</b>

## Revenue Mix by Geography

(in million)

	Q2 FY05 \$	Q2 FY05 INR	as a %	Q2 FY04 \$	Q2 FY04 INR	as a %	Growth %
India	43	1,991	37	47	2,141	40	(7)
North America	28	1,299	24	31	1,425	27	(9)
Russia	13	601	11	8	369	7	63
Europe	13	584	11	18	816	15	(28)
Others	20	932	17	14	626	12	49
<b>TOTAL</b>	<b>118</b>	<b>5,407</b>	<b>100</b>	<b>117</b>	<b>5,377</b>	<b>100</b>	<b>1</b>

## Business Highlights

- Revenues at Rs 5.4 billion, a marginal growth of 0.6% over Q2 FY04. However, compared to Q1 FY05, excluding the DRF 4158 income recognition in Q1 FY05, quarter-on-quarter revenue growth at 11%.
- Revenues outside India at Rs 3.4 billion as against Rs 3.2 billion in Q2 FY04. YoY growth of 6%.
- International revenues in Branded Formulations segment at Rs 970 million, an increase of 68% over Q2 FY04. The growth was primarily driven by the performance of Russia and allied markets.

- Driven by improved geography and product mix, gross profit margins at 55% of revenues in Q2 FY05 as against 54% of revenues in Q2 FY04. The gross profit margins are also higher compared to the margins in Q1 FY05 at 51% of revenues.

#### Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 1.8 billion as against Rs 2 billion in Q2 FY04.
- Revenues outside India at Rs 1.3 billion contributing 70% of revenues as against 67% in Q2 FY04.
- Revenues from Europe decreased to Rs 217 million as against Rs 526 million in Q2 FY04 primarily on account of decline in revenues from ramipril following the launch of generic finished dosages in January 2004. This decline was however offset by the growth in North America and other international markets. North America grew by 21% to Rs 523 million as against Rs 432 million in Q2 FY04 driven by growth in existing products coupled with development quantity supplies of new products.
- The Company filed 2 US DMF during the quarter and completed work on 2 additional DMFs taking the total filings to 61.

#### API - Geographic Mix

(in million)

	Q2 FY05 \$	Q2 FY05 INR	As a %	Q2 FY04 \$	Q2 FY04 INR	as a %	Growth%
India	12	553	30	14	660	33	(16)
Europe	5	217	12	11	526	26	(59)
North America	11	523	29	9	432	21	21
Others	12	528	29	9	403	20	31
<b>TOTAL</b>	<b>40</b>	<b>1,821</b>	<b>100</b>	<b>44</b>	<b>2,021</b>	<b>100</b>	<b>(10)</b>

#### Generic Formulations

- Revenues in this segment at Rs 1 billion as against Rs 1.2 billion in Q2 FY04.
- North America contributed 69% to the total revenues and Europe contributed 31%.
- Fluoxetine capsules 40mg and tizanidine tablets 2 & 4 mg together contributed revenues of Rs 417 million as against Rs 713 million in Q2 FY04. The revenues declined on account of increased competition over the last four quarters. The combined revenues from these products in Q2 FY05 of Rs 417 million compare with Rs 293 million in Q1 FY05.

- Revenues in Europe grew by 33% to Rs 324 million as against Rs 244 million in Q2 FY04. The growth was driven primarily by volume growth in Omeprazole and new product launches in the last 4 quarters.
- During the quarter, the Company prepared 6 ANDAs for filing which will be filed by the end of October.

### **Branded Formulations - International**

- Revenues at Rs 970 million, an increase of 68% over Q2 FY04. The growth was primarily driven by the performance of Russia and allied markets.
- Revenues in Russia grew by 63% to Rs 587 million as against Rs 360 million in Q2 FY04. The growth was driven by the growth in key brands of Omez, Keterol and Nise primarily due to seasonal factors.
- Other CIS markets grew by 43% to Rs 146 million as against Rs 102 million in Q2 FY04. The growth was driven primarily by key markets of Kazakhstan, Ukraine and Belarus.

### **Geographic Mix**

*(in million)*

<b>Region</b>	<b>Q2 FY05 \$</b>	<b>Q2 FY05 INR</b>	<b>as a %</b>	<b>Q2 FY04 \$</b>	<b>Q2 FY04 INR</b>	<b>as a %</b>	<b>Growth %</b>
Russia	13	587	61	8	360	63	63
Other CIS	3	146	15	2	102	18	43
Europe	1	43	4	0.5	20	3	110
ROW	4	195	20	2	94	16	108
<b>Total</b>	<b>21</b>	<b>970</b>	<b>100</b>	<b>13</b>	<b>576</b>	<b>100</b>	<b>68</b>

### **Branded Formulations - India**

- Revenues at Rs 1.3 billion, a decrease of 4% over Q2 FY04.
- New product launches contributed 5% to the total revenues at Rs 65 million.

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

Therapeutic Segment	Q2 FY05 \$	Q2 FY05 INR	as a %	Q2 FY04 \$	Q2 FY04 INR	as a %	Growth%
Gastro Intestinal	6	281	21	6	290	21	(3)
Cardiovascular	6	279	21	7	330	24	(15)
Pain Management	5	250	19	5	234	17	7
Anti Infectives	2	106	8	3	137	10	(23)
Diabetic Care	2	84	6	2	79	6	7
Nutraceuticals	2	70	5	2	76	5	(8)
Dental	1	65	5	1	54	4	20
Dermatology	1	52	4	1	50	4	5
Urology	1	51	4	1	53	4	(3)
Surgery	1	40	3	0	21	2	88
Central Nervous System	1	30	2	1	28	2	8
Respiratory	1	27	2	1	35	2	(22)
Gynecology	0	9	1	0	8	1	19
<b>Total</b>	<b>29</b>	<b>1,345</b>	<b>100</b>	<b>30</b>	<b>1,395</b>	<b>100</b>	<b>(4)</b>

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

Brand	Q2 FY05 \$	Q2 FY05 INR	as a %	Q2 FY04 \$	Q2 FY04 INR	as a %	Growth%
Nise	5	225	17	6	292	21	(23)
Omez	4	171	13	4	170	12	0
Stamlo	2	76	6	2	76	5	0
Stamlo Beta	1	50	4	1	42	3	19
Enam	1	44	3	1	44	3	(1)
Ciprolet	1	34	3	1	46	3	(25)
Atocor	1	31	2	1	25	2	25
Mintop	1	31	2	1	27	2	13
Clamp	1	31	2	1	32	2	(3)
Finast	1	25	2	0	17	1	52
Others	14	627	47	14	624	45	1
<b>Total</b>	<b>29</b>	<b>1,345</b>	<b>100</b>	<b>30</b>	<b>1,395</b>	<b>116</b>	<b>(4)</b>

## Other Businesses

- Revenues in the critical care & biotechnology segment increased to Rs 130 million from Rs 89 million in Q2 FY04.
- Revenues from Custom Pharmaceuticals increased to Rs 98 million from Rs 28 million in Q2 FY04.

## Income Statement Highlights

- Gross Profit margins on total revenues at 55% as against 54% in Q2 FY04. This improvement is primarily on account of the better geography and product mix.
- Investments in R&D at Rs 627 million as against Rs 490 million in Q2 FY04. As a % to revenues, R&D spend is at 12% of total revenues as against 9% in Q2 FY04. The increase in R&D spend is primarily on account of the higher R&D spend in drug discovery segment.
- Selling, General & Administration (SG&A) expenses increased to Rs 1.7 billion as against Rs 1.5 billion in Q2 FY04. As a % to revenues, SG&A expenses are at 32% of total revenues as against 27% in Q2 FY04. This increase is primarily on account of higher marketing expenses and manpower cost. The SG&A expenses in Q1 FY05 were at Rs 1.6 billion.
- Forex loss at Rs 49 million as against a gain of Rs 97 million in Q2 FY04. This reversal is primarily on account of the change in the rupee-dollar parity during the last two quarters.
- Other income (net) is at Rs 137 million as against Rs 169 million in Q2 FY04.
- Depreciation for the quarter is at Rs 238 million as against Rs 178 million for Q2 FY04.
- Net income at Rs 517 million (10% of total revenues) as against Rs 929 million (17% of total revenues) in Q2 FY04. This translates to a diluted EPS of Rs6.75 as against Rs12.14 in Q2 FY04.

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