

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q3 FY05 Financial Performance Review

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Q3 FY05 USGAAP

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All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 43.27

EXTRACTED FROM THE UNAUDITED INCOME STATEMENT

Particulars	Q3 FY05			Q3 FY04			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Net Product Revenues	108	4,644	99	119	5,138	100	(9)
License Fees	1	61	1	-	-	-	-
Total Revenues	109	4,705	100	119	5,138	100	(8)
Cost of revenues	52	2,245	48	57	2,464	48	(8)
Gross profit	57	2,460	52	62	2,674	52	(8)
Selling, General & Administrative Expenses	40	1,715	36	36	1,548	30	11
Amortization Expenses	2	88	2	2	97	2	(10)
Operating Income (before R&D & Forex)	15	657	14	24	1,029	20	(36)
R&D Expenses	16	705	15	12	516	10	37
Forex Loss/ (Gain)	1	48	1	(1)	(62)	(1)	-
Operating income	(2)	(97)	(2)	13	575	11	-
Equity in loss of affiliates	0	15	0	0	13	0	12
Other expenses/(income) net	(3)	(123)	(3)	(4)	(162)	(3)	(24)
Income before income taxes and minority interest	0	11	0	17	724	14	(98)
Income tax (benefit)/expense	(1)	(27)	(1)	3	132	3	-
Minority interest	0	(2)	(0)	-	-	-	-
Net income	1	40	1	14	592	12	(93)
Diluted EPS	0.01	0.52		0.18	7.72		
Exchange rate	43.27			43.27			
Key Balance Sheet Items	Dec 04	Dec 04		Sept 04	Sept 04		
Cash and cash equivalents	143	6,190		128	5,535		
Investment securities	57	2,476		62	2,673		
Accounts receivable, net of allowances	93	4,030		95	4,093		
Inventories	85	3,673		87	3,762		
Property, plant and equipment, net	161	6,947		157	6,799		

Revenue Mix by Segment

(in million)

	Q3 FY05 \$	Q3 FY05 INR	as a %	Q3 FY04 \$	Q3 FY04 INR	as a %	Growth %
APIs	33	1,424	30	45	1,943	38	(27)
India	9	401	28	12	538	28	(25)
International	24	1,023	72	33	1,405	72	(27)
Branded Formulations	47	2,013	43	45	1,958	38	3
India	23	993	49	24	1,046	53	(5)
International	24	1,020	51	21	912	47	12
Generics	22	966	21	24	1,057	21	(9)
Emerging Business	3	136	3	3	150	3	(9)
Custom Pharmaceuticals	3	113	2	0	9	0	-
Others	0	0	0	0	21	0	(100)
Drug Discovery	1	53	1	0	0	0	-
Total	109	4,705	100	119	5,138	100	(8)

Revenue Mix by Geography

(in million)

	Q3 FY05 \$	Q3 FY05 INR	as a %	Q3 FY04 \$	Q3 FY04 INR	as a %	Growth %
India	35	1,491	32	38	1,658	32	(10)
North America	27	1,160	25	31	1,356	27	(14)
Russia	14	613	13	14	622	12	(1)
Europe	14	622	13	18	779	15	(20)
Others	19	819	17	18	723	14	13
TOTAL	109	4,705	100	119	5,138	100	(8)

Business Highlights

- Revenues at Rs 4.7 billion, a decline of 8% over Q3 FY04.
- International revenues in Branded Formulations segment at Rs 1,020 million, an increase of 12% over Q3 FY04. This growth was primarily driven by the performance of CIS and other international markets.
- Europe revenues in Generics segment at Rs 316 million, an increase of 60% over Q3 FY04. The growth was primarily driven by the performance of omeprazole capsules and launch of amlodipine maleate in Q1 FY05.
- Revenues from Custom Pharmaceuticals increased to Rs 113 million from Rs 9 million in Q3 FY04 driven by growth in customer base and product portfolio.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 1.4 billion as against Rs 1.9 billion in Q3 FY04.
- Revenues outside India at Rs 1.0 billion; contribution remains unchanged at 72% of revenues.
- Revenues from other international markets increased by 6% to Rs 402 million as against Rs 381 million in Q3 FY04.
- Revenues from India decreased by 25% to Rs 401 million as against Rs 538 million in Q3 FY04.
- Revenues from Europe decreased to Rs 216 million as against Rs 534 million in Q3 FY04 primarily on account of decline in revenues from ramipril. Revenues from ramipril are lower following the completion of initial launch supplies last January 2004. Excluding ramipril, revenues increased by 21% percent over Q3 FY04.
- Revenues from North America decreased by 18% to Rs 405 million as against Rs 491 million in Q3 FY04.
- The Company filed 4 US DMF during the quarter taking the total filings to 63.

API - Geographic Mix

(in million)

	Q3 FY05 \$	Q3 FY05 INR	As a %	Q3 FY04 \$	Q3 FY04 INR	as a %	Growth%
India	9	401	28	12	538	28	(25)
Europe	5	216	15	12	534	27	(60)
North America	9	405	28	11	491	25	(18)
Others	10	402	28	9	381	20	6
TOTAL	33	1,424	100	45	1,943	100	(27)

Generic Formulations

- Revenues in this segment at Rs 966 million as against Rs 1,057million in Q3 FY04.
- North America contributed 67% to the total revenues while Europe contributed the remainder.
- Fluoxetine capsules 40mg and tizanidine tablets 2 & 4 mg together contributed revenues of Rs 206 million as against Rs 554 million in Q3 FY04. The decline in revenues is on account of increased competition over the last four quarters. The combined revenues from these products in Q3 FY05 of Rs 206 million compare with Rs 417 million in Q2 FY05.

- Revenues in Europe grew by 60% to Rs 316 million as against Rs 198 million in Q3 FY04. The growth was driven primarily by volume growth in omeprazole and launch of amlodipine maleate in Q1 FY05.
- During the quarter, the Company filed 6 ANDAs including 5 sent in Q2 FY05 and accepted for filing in Q3 FY05. Of these, two are para IV filings and the remainder is non-Para IV filings. Till date, the Company has filed a total of 54 ANDAs. Of these, 15 have been approved and 39 are pending approval with the U.S.FDA.

Branded Formulations - International

- Revenues at Rs 1,020 million, an increase of 12% over Q3 FY04. This growth was primarily driven by the performance of CIS and other international markets.
- Revenues in CIS markets grew by 64% to Rs 220 million as against Rs 134 million in Q3 FY04. This growth was driven by the growth in key markets of Kazakhstan, Ukraine and Belarus.
- Revenues from Russia at Rs 595 million as against Rs 615 million in Q3 FY04.
- Other international markets grew by 31% to Rs 169 million as against Rs 129 million in Q3 FY04. This growth was driven primarily by key markets of Vietnam, Venezuela and Albania.

Geographic Mix

(in million)

Region	Q3 FY05 \$	Q3 FY05 INR	as a %	Q3 FY04 \$	Q3 FY04 INR	as a %	Growth %
Russia	14	595	58	14	615	67	(3)
Other CIS	5	220	22	3	134	15	64
Europe	1	37	4	1	34	4	9
ROW	4	169	16	3	129	14	31
Total	24	1,020	100	21	912	100	12

Branded Formulations - India

- Revenues at Rs 993 million, a decrease of 5% over Q3 FY04.
- New product launches contributed 7% to the total revenues at Rs 65 million. This was offset by decline in revenues from our key brand of Omez.

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

Therapeutic Segment	Q3 FY05 \$	Q3 FY05 INR	as a %	Q3 FY04 \$	Q3 FY04 INR	as a %	Growth%
Cardiovascular	6	237	24	5	216	21	9
Gastro Intestinal	4	177	18	5	234	22	(25)
Pain Management	3	117	12	2	100	10	17
Anti Infectives	2	80	8	2	105	10	(23)
Diabetic care	2	76	8	2	69	7	10
Neutraceuticals	1	61	6	2	64	6	(5)
Respiratory	1	57	6	2	65	6	(13)
Dermatology	1	54	5	1	57	5	(6)
Dental	1	45	4	1	41	4	8
Gynecology	1	29	3	1	31	3	(9)
Urology	1	27	3	1	25	2	10
Surgery	1	23	2	1	26	2	(12)
Central Nervous System	0	11	1	0	11	1	(2)
Total	23	993	100	24	1,046	100	(5)

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

Brand	Q3 FY05 \$	Q3 FY05 INR	as a %	Q3 FY04 \$	Q3 FY04 INR	as a %	Growth%
Omez	2	85	9	4	154	15	(45)
Nise	2	78	8	2	71	7	9
Stamlo	2	75	8	2	64	6	17
Stamlo Beta	1	49	5	1	44	4	12
Enam	1	41	4	1	36	4	13
Atocor	1	30	3	1	25	2	21
Clamp	1	30	3	1	28	3	4
Mintop	1	25	3	1	25	2	2
Antoxid	1	21	2	1	21	2	(1)
Gaity	0	19	2	1	25	2	(22)
Others	13	540	54	13	553	53	(2)
Total	23	993	100	24	1,046	100	(5)

Other Businesses

- Revenues from Custom Pharmaceuticals increased to Rs 113 million from Rs 9 million in Q3 FY04 driven by growth in product portfolio.
- Revenues in the critical care & biotechnology segment decreased to Rs 136 million from Rs 150 million in Q3 FY04.
- In Drug discovery, the company recognized upfront license fees of Rs 53 million relating to DRF 2593, on completion of all obligations under the agreement with Novo Nordisk.

Income Statement Highlights

- Gross Profit margins on total revenues at 52.3% as against 52% in Q3 FY04. This compares with gross profit of 55% in Q2 FY05. This decline is primarily on account of the decline in overall revenues and change in business mix.
- Investments in R&D at Rs 705 million as against Rs 516 million in Q3 FY04. As a % to revenues, R&D spend is at 15% of total revenues as against 10% in Q3 FY04. The increase in R&D spend is primarily on account of the higher R&D spend in generics segment.
- Selling, General & Administration (SG&A) expenses increased to Rs 1.7 billion as against Rs 1.5 billion in Q3 FY04. As a % to revenues, SG&A expenses are at 36% of total revenues as against 30% in Q3 FY04. This increase is primarily on account of higher manpower cost as well as marketing expenses.
- Forex loss at Rs 48 million as against a gain of Rs 62 million in Q3 FY04. This reversal is primarily on account of the change in the rupee-dollar parity during the quarter.
- Other income (net) is at Rs 123 million as against Rs 162 million in Q3 FY04.
- Depreciation for the quarter is at Rs 253 million as against Rs 188 million for Q3 FY04.
- Net income at Rs 40 million as against Rs 592 million in Q3 FY04. This translates to a diluted EPS of Rs 0.52 as against Rs 7.72 in Q3 FY04.

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