

Dr Reddy's Laboratories Ltd.

NYSE:RDY

Q4 FY05 and FY05 Financial Performance Review

Table of Contents

FY05 USGAAP

Financial Snapshot	02
Revenue Mix	03
Active Pharmaceutical Ingredients	04
Generic Formulations	05
Branded Formulations	05
Other Businesses	07
Income Statement Highlights	07

Q4 FY05 USGAAP

Financial Snapshot	09
Revenue Mix	10
Active Pharmaceutical Ingredients	11
Generic Formulations	11
Branded Formulations	12
Other Businesses	12
Income Statement Highlights	12

All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 43.62

EXTRACT FROM THE AUDITED INCOME STATEMENT

Particulars	FY05			FY04			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues ⁽¹⁾	446	19,472	100	460	20,081	100	(3)
Cost of revenues	215	9,386	48	214	9,346	47	0
Gross profit	231	10,086	52	246	10,735	53	(6)
Selling, General & Administrative Expenses	156	6,810	35	150	6,563	33	4
R&D Expenses ⁽²⁾	58	2,526	13	46	1,992	10	27
In Process R&D Acquisition charge	6	277	1	0	0	0	-
Amortization Expenses	8	350	2	9	383	2	(9)
Other operating (income)/expense net	(5)	(203)	(1)	(3)	(131)	(1)	26
Operating income before forex loss/(gain)	7	325	2	44	1,928	10	(93)
Forex Loss/ (Gain)	11	489	3	(6)	(283)	(1)	(NC)
Operating income/(loss)	(4)	(164)	(1)	51	2,211	11	(NC)
Equity in loss of affiliates	1	58	0	1	44	0	31
Other expenses/(income) net	(8)	(329)	(2)	(9)	(373)	(2)	(12)
Income before income taxes and minority interest	2	107	1	58	2,540	13	(96)
Income tax (benefit)/expense	(2)	(94)	(0)	2	69	0	(NC)
Minority interest	0	(10)	(0)	0	(3)	(0)	-
Net income	5	211	1	57	2,474	12	(91)
DEPS		2.76			32.32		
Exchange rate		43.62			43.62		
Key Balance Sheet Items							
Cash and cash equivalents	213	9,288		100	4,376		
Borrowings from banks	64	2,796		7	321		
Investment securities	30	1,306		94	4,100		
Accounts receivable, net of allowances	82	3,587		86	3,730		
Inventories	80	3,500		70	3,031		
Property, plant and equipment, net	162	7,058		145	6,331		

(1) Income from Drug Discovery of Rs 288 mn relating to DRF 2593 & DRF 4158 income recognition

(2) Income from ICICI Venture toward Generics R&D partnership amounting to Rs 96 mn

Revenue Mix by Segment

(in million)

	FY05 \$	FY05 INR	as a %	FY04 \$	FY04 INR	as a %	Growth %
APIs	159	6,945	36	175	7,629	38	(9)
India	45	1,972	28	48	2,115	28	(7)
International	114	4,972	72	126	5,513	72	(10)
Branded Formulations	179	7,823	40	172	7,507	37	4
India	100	4,360	56	108	4,729	63	(8)
International	79	3,463	44	64	2,778	37	25
Generics	82	3,577	18	99	4,338	22	(18)
Emerging Business	12	527	3	9	411	2	28
Custom pharmaceutical services	7	312	2	3	113	1	175
Others	7	288	1	2	83	0	243
Total	446	19,472	100	460	20,081	100	(3)

Revenue Mix by Geography

(in million)

	FY05 \$	FY05 INR	As a %	FY04 \$	FY04 INR	as a %	Growth %
India	153	6,693	34	164	7,143	36	(6)
North America	100	4,349	22	122	5,319	26	(18)
Russia	50	2,170	11	42	1,821	9	19
Europe	66	2,868	15	64	2,789	14	3
Others	77	3,392	17	68	3,009	15	13
TOTAL	446	19,472	100	460	20,081	100	(3)

Business Highlights

- Revenues at Rs 19 billion as against Rs 20 billion in FY04. YoY decline of 3%
- Revenues in Europe generics at Rs 1.3 billion as against Rs 930 million in FY04; YoY growth of 44%. The growth was primarily driven by higher revenues from omeprazole and amlodipine maleate. Omeprazole became the single largest selling generic in that category in UK.
- Revenues in international formulations at Rs 3.5 billion as against Rs 2.8 billion. YoY growth of 25%. This growth was driven by increase in sales from Russia, CIS and ROW markets

- Global sales of omeprazole at \$45 million in FY05; Revenues in key markets of India, Russia and UK in excess of \$10 million each.
- New product launches in India contributed 6% of total revenues of Branded Formulations India segment.
- Revenues from custom pharmaceuticals services increased to Rs 312 million from Rs 113 million in FY04 driven by growth in customer base and product portfolio.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 6.9 billion as against Rs 7.6 billion in FY04. YoY decline of 9%
- Revenues outside India at Rs 5.0 billion as against Rs 5.5 billion in FY04. YoY decline of 10%.
- Europe contributed 16% of total revenues as against 21% in FY04. Revenue decline is mainly on account of decline in sales of Ramipril which contributed Rs 698 million in revenues compared to Rs 1.2 billion in FY04. The decrease in sales is due to decline in sales price on account of additional competition following the launch of generic finished dosages in January 2004.
- Revenues in India at Rs 2.0 billion as against Rs 2.1 billion in FY04. YoY decline of 7% primarily on account of decrease in sales of key products such as ciprofloxacin, sparfloxacin and gatifloxacin.
- Revenues in North America at Rs 1.8 billion as against Rs 1.9 billion in FY04.
- The Company filed 9 US DMFs during the year taking the total filings to 65.

API - Geographic Mix

(in million)

	FY05 \$	FY05 INR	As a %	FY04 \$	FY04 INR	as a %	Growth%
North America	42	1,849	27	44	1,903	25	(3)
India	45	1,972	28	48	2,115	28	(7)
Europe	25	1,091	16	37	1,627	21	(33)
ROW	47	2,032	29	45	1,984	26	2
TOTAL	159	6,945	100	175	7,629	100	(9)

Generic Formulations

- Revenues in this segment at Rs 3.6 billion as against Rs 4.3 billion in FY04.
- North America contributed 62% to the total revenues and Europe contributed 37%.
- Revenues in Europe grew by 44% to Rs 1,340 million as against Rs 930 million in FY04. The growth was driven by higher revenues from omeprazole and amlodipine maleate. Revenues from omeprazole grew by 33% to Rs 434 million as against Rs 325 million in FY04. Following the launch in March 2004, amlodipine maleate recorded full year revenues of Rs 220 million in FY05.
- In North America, combined revenues from fluoxetine capsules 40mg and tizanidine tablets 2 & 4 mg declined to Rs 1.1 billion from Rs 2.5 billion in FY 04. This decline in revenues is largely due to intense competition from existing as well as new players in the market.
- Revenues from new product launches in North America contributed to Rs 347 million. Of these, citalopram and ciprofloxacin together contributed Rs 319 mn. Both these products captured significant market share in the range of 15-17% despite stiff competition.
- During the year, the Company filed 13 ANDAs. Of the total, 7 include non Para IVs. This takes the total ANDAs pending at the USFDA to 45.

Branded Formulations - International

- Revenues at Rs 3.5 billion, an increase of 25% over FY04. The growth was primarily driven by the performance of Russia & CIS markets.
- Revenues in Russia grew by 18% to 2.1 billion as against Rs 1.8 billion in FY04. This growth was primarily driven by increase in sales from key brands such as Omez, Nise and Keterol
- Revenues in CIS markets grew by 31% to Rs 593 million as against Rs 452 million in FY05. This growth is primarily driven by Ukraine and Belarus.
- Revenues in other international markets grew by 40% to Rs 613 million as against Rs 437 million in FY04. The growth is primarily driven by increased sales from South Africa, Venuezuela and UAE.
- Revenues in Central & Eastern Europe grew by 39% to Rs 149 million as against Rs 107 million in FY04. This growth is mainly on account of better performance of Romania and Albania.

Geographic Mix

(in million)

Country	FY05 \$	FY05 INR	as a %	FY04 \$	FY04 INR	as a %	Growth %
Russia	48	2,107	61	41	1,782	64	18
CIS	14	593	17	10	452	16	31
Central & Eastern Europe	3	149	4	2	107	4	39
ROW	14	613	18	10	437	16	40
Total	79	3,463	100	64	2,778	100	25

Branded Formulations - India

- Revenues at Rs 4.4 billion, decrease of 8% over FY04.
- New product launches contributed Rs 252 million (5.8% of total revenues) in FY05. As per ORG IMS March MAT 2005, company is ranked fourth on total value of new product launches.
- Contribution from new product launches was offset by lower growth in some of the mature brands as well as lower sales in March 2005 due to implementation of Value Added Tax system.

Branded Formulations – India - Revenues by Therapies

(in million)

Therapeutic Segment	FY05			FY04			Growth%
	USD Mn	Rs Mn	as a %	USD Mn	Rs Mn	as a %	
Cardiovascular	21.5	938	22	23.3	1,015	21	(8)
Gastro Intestinal	20.7	902	21	21.3	928	20	(3)
Pain	16.4	714	16	18.0	784	17	(9)
Anti Infectives	7.4	324	7	10.1	439	9	(26)
Diabetic Care	6.8	298	7	6.9	301	6	(1)
Neutraceuticals	5.6	244	6	6.9	301	6	(19)
Dermatology	4.7	206	5	4.7	206	4	0
Respiratory	4.1	178	4	4.7	207	4	(14)
Dental	4.1	177	4	4.0	173	4	2
Urology	3.0	132	3	2.2	97	2	36
Women's Health Care	2.5	111	3	2.7	116	2	(4)
Surgery	2.4	103	2	2.9	126	3	(18)
Central Nervous System	0.8	34	1	0.8	37	1	(8)
Total	100.0	4,360	100	108.4	4,729	100	(8)

Branded Formulations – India - Revenues by Key brands

(in million)

Brand	FY05			FY04			Growth%
	USD Mn	Rs Mn	as a %	USD Mn	Rs Mn	as a %	
Nise	12.3	538	12	15.0	654	14	(18)
Omez	12.1	528	12	14.2	621	13	(15)
Stamlo	6.8	298	7	6.7	292	6	2
Stamlo Beta	4.3	187	4	4.3	187	4	(0)
Enam	3.7	162	4	3.7	164	3	(1)
Atocor	2.7	116	3	2.3	100	2	15
Clamp	2.3	101	2	2.4	106	2	(5)
Mintop	2.3	98	2	2.3	99	2	(0)
Ciprolet	2.2	96	2	3.1	135	3	(28)
Reclide	2.0	86	2	2.1	90	2	(5)
Others	49.3	2,151	49	52.3	2,281	48	(6)
Total	100.0	4,360	100	108.4	4,729	100	(8)

Other Businesses

- Revenues in the critical care & biotechnology segment at 527 million, an increase of 28%. The increase is mainly on account of growth in our critical care division by Rs 83 million.
- Revenues from custom pharmaceutical services increased by 175% to Rs 312 million from Rs 113 million in FY04. The growth is driven by increase in customer base and product portfolio.
- Revenues from drug discovery at Rs 288 million. During the year, the company recognized upfront license fees relating to DRF 2593 and DRF 4158 on completion of all obligations under the respective agreements.

Income Statement Highlights

- Gross profit margins on total revenues at 52% as against 53% in FY04. This decline is primarily on account of decline in revenues in Europe API, India formulations and US generics businesses.
- Investments in R&D increased by 27% to Rs 2.5 billion from Rs 2.0 billion in FY04. As a %, R&D spend is at 13% of total revenues as against 9.9% in FY04. This includes an income of Rs 96 million towards the partnership deal with ICICI Venture. During the year, the company invested Rs 869 mn in drug discovery compared to Rs 729 million in FY04. This increase is primarily due to clinical development expenses towards DRF 10945 and RUS 3108.
- During the year, the company recorded a one-time non-cash charge of Rs 277 million related to the acquisition of Trigenesis.

- Selling, General & Administration (SG&A) expenses increased by 4% to Rs 6.8 billion. As a % to revenues, SG&A expenses are at 35% of total revenues as against 33% in FY04. This increase is primarily on account of increase in manpower cost which was offset by decrease in legal and professional charges.
- Other income (net) decreased marginally to Rs 329 million from Rs 373 million in FY04. This includes net interest income of Rs 272 million.
- Depreciation for the year is at Rs 959 million as against Rs 746 million for FY04.
- Net income at Rs 211 million (1% of total revenues) as against Rs 2.5 billion (12% of total revenues) in FY04. This translates to a diluted EPS of Rs 2.76 as against Rs 32.32 in FY04.
- During the year, the Company incurred capital expenditure of Rs 1.7 billion.

Q4 FY05 Financial Snapshot

All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 43.62

Extracted from the Audited Income Statement for the year ended March 2005

	Q4 FY05			Q4 FY04			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Total Revenues	97	4,252	100	109	4,755	100	(11)
Cost of revenues	51	2,218	52	52	2,266	48	(2)
Gross profit	46	2,034	48	57	2,488	52	(18)
Selling, General & Administrative Expenses	39	1,721	40	48	2,080	44	(17)
R&D Expenses ⁽¹⁾	15	669	16	15	659	14	2
In-Process R&D acquisition charge	6	277	7	0	0	0	-
Amortization Expenses	2	87	2	2	94	2	(8)
Operating income before forex (gain)/loss	(16)	(720)	(16)	(8)	(345)	(7)	(109)
Forex Loss/ (Gain)	2	69	2	(1)	(46)	(1)	(NC)
Operating income	(18)	(789)	(19)	(7)	(299)	(6)	(163)
Equity in loss of affiliates	0	16	0	0	4	1	341
Other expenses/(income) net	(3)	(160)	(4)	(1)	(32)	(1)	401
Income before income taxes and minority interest	(15)	(645)	(15)	(6)	(271)	(6)	(137)
Income tax (benefit)/expense	(3)	(127)	(3)	(10)	(430)	(9)	(71)
Minority interest	0	(1)	(0)	0	(3)	(0)	(74)
Net income	(12)	(519)	(12)	4	162	3	(NC)

(1) Income from ICICI Venture toward Generics R&D partnership amounting to Rs 96 mn

Revenue Mix by Geography

(in million)

	Q4 FY05 \$	Q4 FY05 INR	as a %	Q4 FY04 \$	Q4 FY04 INR	as a %	Growth %
India	30	1,309	31	36	1,596	34	(18)
North America	19	838	20	23	985	21	(15)
Europe	17	756	18	18	781	16	(3)
Russia	10	430	10	9	395	8	9
Others	21	919	21	23	998	21	(8)
TOTAL	97	4,252	100	109	4,755	100	(11)

Revenue Mix by Segment

(in million)

	Q4 FY05 \$	Q4 FY05 INR	as a %	Q4 FY04 \$	Q4 FY04 INR	as a %	Growth %
APIs	40	1,759	41	46	2,010	42	(12)
India	9	377	21	10	436	22	(14)
International	32	1,382	79	36	1,573	78	(12)
Branded Formulations	35	1,513	36	40	1,757	37	(14)
India	19	832	55	25	1,087	62	(23)
International	16	680	45	15	670	38	2
Generics	17	756	18	19	840	18	(10)
Emerging Business	3	133	3	2	90	2	48
Custom Pharmaceutical Services	2	91	2	1	53	1	72
Others	0	0	0	0	6	0	-
Total	97	4,252	100	109	4,755	100	(11)

Business Highlights

- Revenues at Rs 4.3 billion as against Rs 4.8 billion in Q4 FY04. YoY decline of 11%
- Revenues in Russia at Rs 430 million as against Rs 395 million in Q4 FY04. YoY growth of 9%.
- Revenues in Europe generics at Rs 410 million as against Rs 265 million in Q4 FY04; YoY growth of 55%. This growth was primarily driven by sales of omeprazole and amlodipine maleate.
- Revenues in critical care & biotechnology segment at Rs 133 mn. YOY growth of 48%.
- Revenues in custom pharmaceutical services at Rs 91 million as against Rs 53 million in FY04. YoY growth of 73%. The increase is primarily due to increase in customer base and product portfolio
- Revenues in India formulations at Rs 832 million down by 23% primarily due to lower sales in March 2005 on account of implementation of Value Added Tax system.

Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 1.8 billion as against Rs 2.0 billion in Q4 FY04; YoY decline of 12%
- Revenues outside India at Rs 1.4 billion as against Rs 1.6 billion in Q4 FY04; YoY decline of 12%.
- Revenues in India at Rs 377 million as against Rs 436 million in Q4 FY04; YoY decline of 14%. This decline is due to lower sales of ciprofloxacin and sparfloxacin
- Revenues in Europe contributed 17% of total revenues as against 22% in Q4 FY05. The decrease was primarily due to decrease in sales from ramipril, which contributed Rs 188 million to the revenues against Rs 393 million in Q4 FY04
- The Company filed 2 US DMFs during the quarter taking the total filings to 65.

API - Geographic Mix

(in million)

	Q4 FY05 \$	Q4 FY05 INR	As a %	Q4 FY04 \$	Q4 FY04 INR	as a %	Growth%
North America	9	401	23	9	405	20	(1)
India	8	377	21	10	436	22	(14)
Europe	7	305	17	10	441	22	(31)
ROW	16	676	38	17	728	36	(7)
TOTAL	40	1,759	100	46	2,010	100	(12)

Generic Formulations

- Revenues in this segment at Rs 756 million as against Rs 840 million in Q4 FY04.
- North America contributed 54% to the total revenues and Europe contributed 46%.
- Revenues in Europe at Rs 410 million as against Rs 265 million in Q4 FY04. The increase in sales is primarily driven by higher sales of omeprazole and amlodipine.
- In North America, combined revenues from fluoxetine capsules 40mg and tizanidine tablets 2 & 4 mg declined to Rs 170 million as against Rs 349 million in Q4 FY 04. This decline in revenues is largely due to intense competition from existing as well as new players in the market.
- During the quarter, the Company filed 6 ANDAs.

Branded Formulations - International

- Revenues outside India at Rs 680 million as against Rs 670 million in FY04. Growth in sales from Russia market by 8% was largely offset by decrease in sales from CIS markets by 35%

Geographic Mix

(in million)

Country	Q4 FY05 \$	Q4 FY05 INR	as a %	Q4 FY04 \$	Q4 FY04 INR	as a %	Growth %
Russia	10	414	61	9	383	57	8
CIS	2	76	11	3	118	18	(35)
Central & Eastern Europe	1	40	6	0.7	29	4	40
ROW	3	150	22	3	140	21	7
Total	16	680	100	15	670	100	2

Branded Formulations - India

- Revenues in India at Rs 832 million, decrease of 23% over Q4 FY05. The decrease in sales is primarily on account of lower sales in March 2005 due to implementation of Value Added Tax system.

Other Businesses

- Revenues in the critical care & biotechnology segment at Rs 133 million as against Rs 90 million. YoY growth of 48%
- Revenues from custom pharmaceutical services increased to Rs 91 million from Rs 53 million in Q4 FY04.

Income Statement Highlights

- Gross Margins on total revenues at 48% of total revenues. This compares with gross margins of 52% in Q4 FY04. This decrease is primarily on account of the lower sales in Europe API, India Formulations and US Generics businesses.
- R&D expenditure increased by 2% to Rs 669 million from Rs 659 million in Q4 FY04. This includes an income of Rs 96 million towards the partnership deal with ICICI Venture. As a %, R&D expenditure is at 16% of total revenues as against 14% in Q4 FY04.

- During the quarter, the company recorded a one-time non-cash charge of Rs 277 million related to our acquisition of Trigenesis.
- Selling, General & Administration (SG&A) expenses decreased by 17% to Rs 1.7 billion. As a %, SG&A expenses are at 40% of total revenues as against 44% in Q4 FY04. The decrease is primarily due to decrease in legal & professional charges.
- Other income (net) increased to Rs 160 million from Rs 32 million in Q4 FY04. The increase is on account of higher interest income in Q4 FY05 and a one time charge on divestment of our subsidiary Compact Electric of Rs 58 million in Q4 FY04
- Depreciation for the quarter is at Rs 261 million as against Rs 207 million for Q4 FY04.
- Net loss at Rs 519 million as against net income of Rs 162 million in Q4 FY04.

For further queries, please contact the IR desk at:

Nikhil Shah

Mail: nikhilshah@drreddys.com

Ph: +91-40-55511532