

# Dr Reddy's Laboratories Ltd.

NYSE:RDY

## FY 03 Financial Performance Review

### Table of Contents

#### *FY 03 USGAAP*

Financial Snapshot	02
Revenue Mix	03
Active Pharmaceutical Ingredients	04
Generic Formulations	04
Branded Formulations	05
Other Businesses	06
Income Statement Highlights	07

#### *Q4 FY 03 USGAAP*

Financial Snapshot	08
Revenue Mix	08
Income Statement Highlights	09

All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 47.53

## AUDITED INCOME STATEMENT

Particulars	FY03			FY02			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Net Product Revenues	380	18,070	100	345	16,409	99	10
License Fees	0	0	0	3	125	1	(100)
Services	0	0	0	2	89	0	(100)
<b>Total Revenues</b>	<b>380</b>	<b>18,070</b>	<b>100</b>	<b>350</b>	<b>16,623</b>	<b>100</b>	<b>9</b>
Cost of revenues	165	7,839	43	145	6,869	41	14
Gross profit	<b>215</b>	<b>10,231</b>	<b>57</b>	<b>205</b>	<b>9,754</b>	<b>59</b>	<b>5</b>
Selling, General & Administrative Expenses	106	5,020	28	77	3,668	22	37
R&D Expenses	29	1,375	8	16	742	4	85
Amortization Expenses	9	419	2	10	488	3	(14)
Forex loss/ (gains)	1	70	0	(4)	(209)	(1)	(134)
Total operating expenses	145	6,885	38	99	4,688	28	47
<b>Operating income</b>	<b>70</b>	<b>3,346</b>	<b>19</b>	<b>107</b>	<b>5,066</b>	<b>30</b>	<b>(34)</b>
Equity in loss of affiliates	2	92	1	3	131	1	(29)
Other expenses/(income) net	(14)	(683)	(4)	(3)	(154)	(1)	342
Income before income taxes and minority interest	83	<b>3,937</b>	<b>22</b>	107	<b>5,090</b>	<b>31</b>	<b>(23)</b>
Income tax (benefit)/expense	8	398	2	3	154	1	159
Minority interest	0	7	0	0	15	0	(55)
<b>Net income</b>	<b>74</b>	<b>3,532</b>	<b>20</b>	<b>104</b>	<b>4,921</b>	<b>30</b>	<b>(28)</b>
<b>DEPS</b>	<b>0.97</b>	<b>46.16</b>		<b>1.36</b>	<b>64.62</b>		
Exchange rate	47.53			47.53			
<b>Key Balance Sheet Items</b>							
Cash and cash equivalents	153	7,273		107	5,109		
Accounts receivable, net of allowances	76	3,620		80	3,812		
Inventories	59	2,781		46	2,194		
Property, plant and equipment, net	102	4,830		80	3,799		

## Revenue Mix by Segment

(in million)

	FY03 \$	FY03 INR	as a %	FY02 \$	FY02 INR	as a %	Growth %
<b>APIs</b>	<b>133</b>	<b>6,341</b>	<b>35</b>	<b>110</b>	<b>5,237</b>	<b>31</b>	<b>21</b>
India	36	1,749	28	35	1,648	31	6
International	97	4,592	72	75	3,589	69	28
<b>Branded Formulations</b>	<b>144</b>	<b>6,860</b>	<b>38</b>	<b>127</b>	<b>6,035</b>	<b>36</b>	<b>14</b>
India	90	4,303	63	84	3,993	66	8
International	54	2,557	37	43	2,042	34	25
<b>Generics</b>	<b>90</b>	<b>4,284</b>	<b>24</b>	<b>95</b>	<b>4,527</b>	<b>27</b>	<b>(5)</b>
<b>Emerging Business</b>	<b>9</b>	<b>428</b>	<b>2</b>	<b>9</b>	<b>429</b>	<b>3</b>	<b>0</b>
<b>Custom Chemical Business</b>	<b>2</b>	<b>69</b>	<b>0</b>	<b>4</b>	<b>175</b>	<b>1</b>	<b>(61)</b>
<b>Drug Discovery</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>125</b>	<b>1</b>	<b>(100)</b>
<b>Others</b>	<b>2</b>	<b>88</b>	<b>0</b>	<b>2</b>	<b>95</b>	<b>1</b>	<b>(7)</b>
<b>Total</b>	<b>380</b>	<b>18,070</b>	<b>100</b>	<b>350</b>	<b>16,623</b>	<b>100</b>	<b>9</b>

## Revenue Mix by Geography

(in million)

	FY03 \$	FY03 INR	as a %	FY02 \$	FY02 INR	as a %	Growth %
India	137	6,489	36	127	6,052	36	7
North America	123	5,853	32	127	6,037	36	(3)
Russia	35	1,676	9	28	1,312	8	28
Europe	29	1,401	8	16	781	5	79
Others	56	2,651	15	52	2,441	15	9
<b>TOTAL</b>	<b>380</b>	<b>18,070</b>	<b>100</b>	<b>350</b>	<b>16,623</b>	<b>100</b>	<b>9</b>

## Business Highlights

- Revenues at Rs 18 billion as against Rs 17 billion in FY02. YoY growth of 9%
- Fluoxetine capsules 40mg revenues at Rs 1.9 billion as against Rs 3.7 billion in FY 02, which included one-time marketing exclusivity revenues. Adjusting for fluoxetine in both the years, growth in overall revenues at 25% over FY02.
- Revenues outside India at Rs 11.6 billion as against Rs 10.6 billion in FY02. YoY growth of 10%.
- Revenues in North America at Rs 5.8 billion as against Rs 6 billion in FY02, a marginal decline of 3%. Growth in APIs by 54%, and contribution from generic tizanidine launched

in July 2002 offset the decline in revenues from fluoxetine, post expiry of one-time marketing exclusivity in January 2002.

- Revenues in Europe at Rs 1.4 billion as against Rs 781 million in FY02; YoY growth of 79%. This growth has been driven primarily by the acquisition of BMS and Meridian in the UK, presently known as Dr Reddy's Laboratories, EU and Dr Reddy's Laboratories, UK respectively. Combined revenues at Rs 759 million in FY03.
- Revenues in Russia at 1.7 billion as against Rs 1.3 billion in FY02. YoY growth of 28% driven by growth in key products of Omez, Enam, Ciprolet & Ketorol.

### Active Pharmaceutical Ingredients (APIs)

- Revenues at Rs 6.3 billion as against Rs 5.2 billion in FY02. YoY growth of 21%
- Revenues outside India at Rs 4.6 billion as against Rs 3.6 billion in FY02. YoY growth of 28%; Contributes 72% to the segment's revenues as against 69% in FY02.
- North America contributed 38% of total revenues as against 30% in FY02. Revenue growth of 54% driven by the launch of nizatidine, which contributed Rs 563 million in revenues.
- The Company filed 14 US DMFs during the year taking the total filings to 40.
- Revenues in India at Rs 1.7 billion as against Rs 1.6 billion in FY02. YoY growth of 6% led by volume growth in key products.

### API - Geographic Mix

( in million)

	FY03 \$	FY03 INR	As a %	FY02 \$	FY02 INR	as a %	Growth%
North America	50	2,398	38	33	1,560	30	54
India	37	1,749	28	35	1,648	31	6
Europe	10	466	7	8	405	8	15
ROW	36	1,728	27	34	1,624	31	6
<b>TOTAL</b>	<b>133</b>	<b>6,341</b>	<b>100</b>	<b>110</b>	<b>5,237</b>	<b>100</b>	<b>21</b>

### Generic Formulations

- Revenues in this segment at Rs 4.3 billion as against Rs 4.5 billion in FY02.
- North America contributed 80% to the total revenues and Europe contributed 19%.
- Fluoxetine capsules 40mg revenues at Rs 1.9 billion as against Rs 3.7 billion in FY 02, which included one-time marketing exclusivity revenues.

- Tizanidine tablets 2 & 4 mg, launched in the US in July 2002, contributed Rs 778 million to the revenues in North America.
- Revenues in Europe at Rs 814 million as against Rs 12 million in FY02. Combined revenues of Dr Reddy's UK and Dr Reddy's were at Rs 759 million in FY03.
- Omeprazole capsules launched in UK in October 2002, was the key contributor, with revenues of Rs 283 million for FY03.
- During the year, the Company filed 14 ANDAs, including 3 pending acceptance by the USFDA. Of the 14 filings, 10 were Para IV certifications. This takes the total ANDAs pending at the USFDA to 23.

### Branded Formulations - International

- Revenues at Rs 2.6 billion, an increase of 25% over FY02. The growth was primarily driven by the performance of the CIS markets.
- Revenues in Russia grow by 27% to 1.7 billion as against Rs 1.3 billion in FY02.
- Revenues in other CIS markets at Rs 430 million as against Rs 307 million in FY02. YoY growth of 40% with growth coming in from all markets.

### Geographic Mix

( in million)

Country	FY03 \$	FY03 INR	as a %	FY02 \$	FY02 INR	as a %	Growth %
Russia	35	1,662	65	28	1,312	64	27
Ukraine	3	157	6	2	111	5	42
Kazakhstan	3	145	6	2	96	5	52
Belarus	2	107	4	1	63	3	71
Vietnam	1	62	2	1	67	3	(7)
Others	9	424	17	8	394	20	7
<b>Total</b>	<b>54</b>	<b>2,557</b>	<b>100</b>	<b>43</b>	<b>2,042</b>	<b>100</b>	<b>25</b>

### Branded Formulations - India

- Revenues at Rs 4.3 billion, an increase of 8% over FY02. The growth has been lower than expected primarily on account of an overall decline in industry growth rate and lower off-take by trade following uncertainty over introduction of Value Added Tax system announced by the Government of India in the month of March.
- As per March ORG MARG, the Company grew at a MAT of 16.3% as against the industry average of 5.7%.

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

Therapeutic Segment	FY03 \$	FY03 INR	as a %	FY02 \$	FY02 INR	as a %	Growth%
Gastro Intestinal	17	778	18	15	735	18	6
Pain Management	17	818	19	16	781	20	5
Cardiovascular	15	706	16	14	642	16	10
Anti Infectives	10	491	11	10	496	12	(1)
Natural	11	527	12	12	561	14	(6)
Women's Health Care	5	208	5	5	214	5	(3)
Diabetic Care	3	162	4	3	146	4	11
Dermatology	3	157	4	3	125	3	26
Specialty	7	326	8	6	270	7	21
Dental	3	131	3	0	23	1	464
<b>Total</b>	<b>91</b>	<b>4,303</b>	<b>100</b>	<b>84</b>	<b>3,993</b>	<b>100</b>	<b>8</b>

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

Brand	FY03 \$	FY03 INR	as a %	FY02 \$	FY02 INR	as a %	Growth%
Nise	14	655	15	12	585	15	12
Omez	10	467	11	10	461	12	1
Stamlo	5	254	6	5	243	6	4
Ciprolet	4	169	4	5	218	5	(22)
Stamlo Beta	3	154	4	3	128	3	20
Enam	3	145	3	3	142	4	2
Antoxid	2	100	2	2	109	3	(9)
Reclide	2	85	2	2	87	2	(2)
Clamp	2	83	2	1	53	1	59
Gaity	2	81	2	0	22	1	274
Others	44	2,110	49	41	1,946	48	8
<b>Total</b>	<b>91</b>	<b>4,303</b>	<b>100</b>	<b>84</b>	<b>3,993</b>	<b>100</b>	<b>8</b>

**Other Businesses**

- Revenues in the diagnostics, critical care & biotechnology segment remain unchanged at Rs 428 million.
- Revenues from Custom Chemical Services declined to Rs 69 million from Rs 175 million in FY02.

## Income Statement Highlights

- Gross Margins on total revenues at 57% driven by improved business mix. This compares with gross margins of 59% in FY02 that included fluoxetine one-time marketing exclusivity revenues.
- R&D expenditure increased by 85% to Rs 1.4 billion from Rs 742 million in FY02. As a %, R&D expenditure is at 7.6% of total revenues as against 4.5% in FY02. The full year R&D spend is more or less in line with our stated estimate of 8%. The increase in R&D expenditure is primarily on account of increased number of bio-studies in Generics and higher development activity in APIs and CCS.
- Selling, General & Administration (SG&A) expenses increased by Rs 1.3 billion to Rs 5 billion. As a %, SG&A expenses are at 28% of total revenues as against 22% in FY02. This increase is primarily on account of increase in legal & professional charges by Rs 766 million, increase in manpower cost by Rs 259 million and increase in marketing expenses by Rs 201 million.
- During the year, the Indian Rupee, the functional currency of the Company, strengthened against the US Dollar resulting in a foreign exchange loss of Rs 70 million compared with a foreign exchange gain of Rs 209 million in FY02.
- Other income (net) increased to Rs 683 million from Rs 154 million in FY02. This increase is primarily on account of the increase in interest income on fixed deposit by Rs 239 million.
- Depreciation for the year is at Rs 598 million as against Rs 459 million for FY02.
- Net income at Rs 3.5 billion (20% of total revenues) as against Rs 4.9 billion (30% of total revenues) in FY02. This translates to a diluted EPS of Rs 46.16 as against Rs 64.62 in FY02.
- During the year, the company made the following major investments –
  - Rs 592 million in Aurigene Discovery Technologies, bringing the total investments to Rs 703 million,
  - Rs 567 million for the acquisition of BMS and its subsidiary Meridian in the UK
- During the year, the Company incurred capital expenditure of Rs 1.5 billion.
- As at March 31, 2003, the cash and cash equivalents were at Rs 7.3 billion or \$ 153 million.
- There has been an improvement in the number of days of sales outstanding to 73 days from 84 as at the end of March 2002.
- Inventory Turnover in days of revenues increased to 56 days from 48 as at the end of March 2002.

All figures in millions, except EPS

All dollar figures based on convenience translation rate of 1USD = Rs 47.53

## Q4 FY03 Financial Snapshot

	Q4 FY03			Q4 FY02			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Net Product Revenues	90	4,262	100	81	3,841	98	11
Services	0	0	0	2	89	2	(100)
<b>Total Revenues</b>	<b>90</b>	<b>4,262</b>	<b>100</b>	<b>83</b>	<b>3,930</b>	<b>100</b>	<b>8</b>
Cost of revenues	33	1,557	37	35	1,668	42	(7)
<b>Gross profit</b>	<b>57</b>	<b>2,705</b>	<b>63</b>	<b>48</b>	<b>2,262</b>	<b>58</b>	<b>20</b>
Selling, General & Administrative Expenses	33	1,566	37	21	990	25	58
R&D Expenses	10	485	11	6	284	7	71
Amortization Expenses	2	94	2	3	155	4	(39)
Total operating expenses	45	2,145	50	30	1,429	36	50
<b>Operating income</b>	<b>12</b>	<b>560</b>	<b>13</b>	<b>18</b>	<b>833</b>	<b>22</b>	<b>(33)</b>
Equity in loss of affiliates	0	10	0	0	15	0	(33)
Other expenses/(income) net	(4)	(176)	(4)	(3)	(123)	(3)	43
<b>Income before income taxes and minority interest</b>	<b>15</b>	<b>726</b>	<b>17</b>	<b>20</b>	<b>941</b>	<b>25</b>	<b>(23)</b>
Income tax (benefit)/expense	1	48	1	(2)	(99)	(2)	NA
Minority interest	0	3	0	0	0	0	-
<b>Net income</b>	<b>14</b>	<b>675</b>	<b>16</b>	<b>22</b>	<b>1,040</b>	<b>26</b>	<b>(35)</b>
<b>Exchange rate</b>		47.53			47.53		

## Revenue Mix by Geography

( in million)

	Q4 FY03 \$	Q4 FY03 INR	as a %	Q4 FY02 \$	Q4 FY02 INR	as a %	Growth %
<b>India</b>	28	1,316	31	31	1,453	37	(9)
<b>North America</b>	27	1,291	30	28	1,330	34	(3)
<b>Europe</b>	10	458	11	9	419	11	9
<b>Russia</b>	9	447	10	7	322	8	39
<b>Others</b>	16	750	18	8	406	10	85
<b>TOTAL</b>	<b>90</b>	<b>4,262</b>	<b>100</b>	<b>83</b>	<b>3,930</b>	<b>100</b>	<b>8</b>



## Revenue Mix by Segment

(in million)

	Q4 FY03 \$	Q4 FY03 INR	as a %	Q4 FY02 \$	Q4 FY02 INR	as a %	Growth %
<b>APIs</b>	<b>29</b>	<b>1,375</b>	<b>32</b>	<b>25</b>	<b>1,187</b>	<b>30</b>	<b>16</b>
India	7	333	24	7	319	27	4
International	22	1,042	76	18	868	73	20
<b>Branded Formulations</b>	<b>33</b>	<b>1,555</b>	<b>36</b>	<b>32</b>	<b>1,503</b>	<b>38</b>	<b>3</b>
India	19	878	56	22	1,019	68	(14)
International	14	677	44	10	484	32	40
<b>Generics</b>	<b>25</b>	<b>1,196</b>	<b>28</b>	<b>21</b>	<b>994</b>	<b>25</b>	<b>20</b>
<b>Emerging Business</b>	<b>2</b>	<b>90</b>	<b>3</b>	<b>2</b>	<b>116</b>	<b>3</b>	<b>(23)</b>
<b>Others</b>	<b>1</b>	<b>46</b>	<b>1</b>	<b>3</b>	<b>130</b>	<b>4</b>	<b>(64)</b>
<b>Total</b>	<b>90</b>	<b>4,262</b>	<b>100</b>	<b>83</b>	<b>3,930</b>	<b>100</b>	<b>8</b>

### Q4 FY03 - Business Highlights

- Revenues at Rs 4.3 billion as against Rs 3.9 billion in Q4 FY02. YoY growth of 8%
- Fluoxetine capsules 40mg revenues at Rs 434 million as against Rs 790 million in Q4 FY02, which included one-time marketing exclusivity revenues. Adjusting for fluoxetine in both the quarters, growth in overall revenues at 22% over Q4 FY02.
- Revenues outside India at Rs 2.9 billion as against Rs 2.5 billion in Q4 FY02. YoY growth of 19%, contributes 69% to total revenues as against 63% in Q4 FY02.
- Revenues in North America were at Rs 1.3 billion, a marginal decline of 3% over Q4 FY02. Decline in revenues due to fluoxetine has been offset by the growth in APIs (of 29%) and contribution from generic tizanidine launched in July 2002.
- Tizanidine tablets 2 & 4 mg, sustained their market share, contributing Rs 218 million to revenues in North America. In the UK market, omeprazole capsules continued to perform well, contributing Rs 179 million to the revenues.
- In Branded Formulations, revenues outside India were at Rs 677 million, an increase of 40% over FY02. The growth was primarily driven by the performance of the CIS markets. Revenues in Russia grew by 37% to Rs 441 million.
- In Branded Formulations, revenues in India were at Rs 878 million, a decline of 14% over Q4 FY02. During the quarter, growth was impacted on account of lower off take by the trade due to the uncertainty over implementation of Value Added Tax system announced by the Government of India in the month of March.

- R&D expenditure at Rs 485 million or 11% of total revenues was exceptionally high primarily on account of timing of bio-study expenses.
- SG&A expenses were at Rs 1,566 million or 37% of total revenues. On a sequential basis, the expenses were higher on account of year-end employee cost related provision of Rs 102 million and increase in legal and consultancy expenses of Rs 67 million.

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