QUARTERLY REPORT
Quarter Ended June 30, 2001

Currency of Presentation and Certain Defined Terms

In this Quarterly Report, references to "$" or "dollars" or "U.S. dollars" are to the legal currency of the United States and references to "Rs." or "rupees" or "Indian rupees" are to the legal currency of India. Our financial statements are presented in Indian rupees and translated into U.S. dollars and are prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"). References to "Indian GAAP" are to Indian generally accepted accounting principles. References to a particular "fiscal" year are to our fiscal year ended March 31 of such year.

References to "U.S." or "United States" are to the United States of America, its territories and its possessions. References to "India" are to the Republic of India. "Dr. Reddy's" is a registered trademark of Dr. Reddy's Laboratories Limited in India. With respect to other trademarks or trade names used in this Quarterly Report, some are registered trade-marks in our name and some are pending before the respective trade marks registries.

Except as otherwise stated in this report, all translations from Indian rupees to U.S. dollars are based on the noon buying rate in the City of New York on June 29, 2001, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York which was Rs.47.09 per US$ 1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding.

Forward-Looking and Cautionary Statement

In addition to historical information, this Quarterly Report contains certain forward-looking statements within the meaning of Section 27a of the Securities Act of 1933, as amended and Section 21e of the Securities Exchange Act of 1934, as amended. The forward-looking statements contained herein are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the section entitled "Operating and Financial Review " and elsewhere in this report. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect our analysis only as of the date hereof. In addition, readers should carefully review the information in our periodic reports and other documents filed with the Securities and Exchange Commission ("SEC") from time to time.

FINANCIAL STATEMENTS
DR. REDDY'S LABORATORIES LIMITED
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	As of March 31, 2001	As of June 30, 2001 (unaudited)	As of June 30, 2001 (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	Rs.478,979	Rs. 3,145,685	US$ 66,802
Restricted cash	18,670	12,930	275
Accounts receivable, net of allowances	2,379,703	2,608,338	55,390
Inventories	1,919,354	2,454,639	52,127
Deferred income taxes	158,931	122,695	2,606
Due from related parties	23,338	23,115	491
Other current assets	328,796	508,016	10,788
Total current assets	5,307,771	8,875,418	188,478
Property, plant and equipment, net	3,243,706	3,260,780	69,246
Due from related parties	34,523	36,565	776
Intangible assets	2,889,373	2,772,960	58,886
Investment securities	21,337	21,474	456
Investment in affiliates	284,970	312,090	6,628
Other assets	101,205	100,239	2,129
Total assets	Rs.11,882,885	Rs.15,379,526	US$326,599
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Borrowings from banks	Rs.2,569,095	Rs. 408,370	US$ 8,672
Current portion of long-term debt	379,515	75,213	1,597
Current portion of capital lease obligations	109	-	-
Trade accounts payable	684,364	1,354,120	28,756
Due to related parties	1,083	2,949	63
Taxes payable	163,120	207,128	4,399
Accrued expenses	383,432	450,336	9,563
Other current liabilities	331,683	315,075	6,691
Total current liabilities	4,512,401	2,813,191	59,741
Long-term debt, excluding current portion	1,003,378	45,531	967
Capital lease obligations, excluding current portion	-	-	-
Deferred revenue	69,813	69,813	1,483
Deferred income taxes	864,857	747,353	15,871
Other liabilities	175,970	153,767	3,265
Total liabilities	6,626,419	3,829,655	81,326
Minority interest	16,002	22,628	481
Stockholders' equity:			
Equity shares at Rs.10 par value; 50,000,000 shares authorized; Issued and outstanding 31,588,780 and 38,201,280 shares as on March 31, 2001 and June 30, 2001 respectively	315,889	382,014	8,112
Additional paid-in capital	4,296,154	10,076,393	213,982
Retained earnings	627,137	1,067,016	22,659
Equity shares held by a controlled trust: 20,700 shares	(4,882)	(4,882)	(104)
Accumulated other comprehensive income	6,166	6,702	142
Total stockholders' equity	5,240,464	11,527,243	244,792
Total liabilities and stockholders' equity	Rs.11,882,885	Rs. 15,379,526	US$ 326,599

See accompanying notes to the consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share data)

	(unaudited)		
	Three months ended June 30,		
	2000	2001	2001
Revenues:			
Product sales, net of allowances for sales returns (includes excise duties of Rs.187,910 and Rs.192,680 for the three months ended June 30, 2000 and 2001 respectively)	Rs. 2,406,216	Rs. 2,994,900	US$ 63,599
License fees	-	-	-
	2,406,216	2,994,900	63,599
Cost of revenues	1,386,486	1,567,390	33,285
Gross profit	1,019,730	1,427,510	30,315
Operating expenses:			
Selling, general and administrative expenses	575,090	738,408	15,681
Research and development expenses	99,364	61,882	1,314
Amortisation expenses	114,626	116,413	2,472
Foreign exchange (gain)/loss	(5,430)	(5,521)	(117)
Total operating expenses	783,650	911,182	19,350
Operating income	236,080	516,328	10,965
Equity in loss of affiliates	(6,811)	(27,572)	(586)
Other expenses, net	(84,662)	8,302	176
Income before income taxes and minority interest	144,607	497,058	10,555
Income tax benefit/(expense)	(48,114)	(24,107)	(512)
Minority interest	1,677	(6,626)	(141)
Net income before extraordinary items	98,170	466,325	9,903
Extraordinary loss on early extinguishments of debt (net of income tax benefits of Rs.14,683) (Note 5)	-	(26,446)	(562)
Net income	Rs.98,170	Rs.439,879	US$ 9,341
Basic and diluted earnings per equity share			
Net income before extraordinary item	3.11	12.48	0.27
Extraordinary item	-	0.70	0.02
Net income	3.11	11.78	0.25
Weighted average number of equity shares used in computing basic and diluted net income per equity share	31,588,780	37,351,417	37,351,417

See accompanying notes to the consolidated financial statements

DR. REDDY'S LABORATORIES LIMITED
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands, except share data)

	Equity Shares				Equity Shares held by a Controlled Trust				
	No. of shares	Amount	Additional Paid In Capital	Comprehensive Income	No. of Shares	Amount	Accumulated Other Comprehensive Income	Retained Earnings/ (Accumulated Deficit)	Total Stockholders' Equity
Balance as of March 31, 2001…..	31,588,780	Rs.315,889	Rs.4,296,154		20,700	Rs.(4,882)	Rs.6,166	Rs.627,137	Rs.5,240,464
Common stock issued (unaudited)..	6,612,500	66,125	5,780,239						5,846,364
Comprehensive income (unaudited)									
Net income (unaudited).....				Rs.439, 879				439,879	439,879
Translation adjustment (Unaudited)				404			404		404
Unrealized gain on investments, net (unaudited)				132			132		132
Comprehensive income (unaudited)....				Rs. 440,415					
Balance as of June 30, 2001(unaudited).....	38,201,280	Rs.382, 014	Rs. 10,076,393		20,700	Rs. (4,882)	Rs. 6,702	Rs.1, 067,016	Rs.11, 527,243
Balance as of June 30, 2001(unaudited)		US$ 8,112	US$ 213,982			US$ (104)	US$ 142	US$ 22,659	US$ 244,792

See accompanying notes to the consolidated financial statements.

DR. REDDY'S LABORATORIES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share data)

	(unaudited)		
	As of June 30,		
	2000	2001	2001
Cash flows from operating activities:			
Net income/(loss)	Rs. 98,170	Rs. 439,879	US$ 9,341
Adjustments to reconcile net income/(loss) to net cash from operating activities:			
Deferred tax expense/(benefit	4,366	(81,271)	(1,726)
(Gain)/loss on sale of investments	-	-	-
Depreciation and amortization	223,014	229,497	4,874
Extraordinary loss on early extinguishments of debt	-	26,446	562
Loss/(gain) on sale of property, plant and equipment.	22,246	-	-
Provision for doubtful accounts receivable	13,273	33,391	709
Allowance for sales returns	6,392	5,776	123
Inventory write-downs.	3,181	4,096	87
Equity in loss of affiliates.	6,811	27,572	586
Write-down of investment securities0	-	-	-
Exchange (gain)/loss on remeasurement	3,864	9,637	205
Minority interest	(1,677)	6,626	141
Changes in operating assets and liabilities:			
Accounts receivable, net of allowances	(405,089)	(259,530)	(5,511)
Inventories	(73,036)	(538,763)	(11,441)
Other assets	(85,597)	(178,497)	(3,791)
Due to / from related parties	(11,997)	(32,345)	(687)
Trade accounts payable	281,097	700,994	14,886
Accrued expenses	750	66,852	1,420
Deferred revenue	-	-	-
Taxes payable	1,831	44,179	938
Other liabilities	27,957	(47,069)	(1,000)
Net cash provided by/(used in) operating activities	115,556	457,470	9,715
Cash flows from investing activities:			
Restricted cash	15,856	5,740	122
Expenditure on property, plant and equipment	(201,530)	(130,605)	(2,774)
Proceeds from sale of property, plant and equipment	62,155	446	9
Acquisition of minority interest	-	-	-
Purchase of investment securities	-	(54,692)	(1,161)
Proceeds from sale of investment securities	-	-	-
Dividends received from affiliates	-	-	-
Expenditure on intangible assets			
Cash paid for acquisition, net of cash acquired	-	-	-
Net cash used in investing activities	(123,519)	(179,111)	(3,804)
Cash flows from financing activities:			
Proceeds from/(repayments of) borrowing from banks, net	246,248	(2,160,725)	(45,885)
Proceeds from issuance of long-term debt	132,136	2,933	62
Repayment of long-term debt	(81,012)	(1,291,528)	(27,427)
Proceeds from issuance of equity	-	5,846,364	124,153
Principal payments under capital lease obligations	(1,817)	(109)	(2)
Dividends	(100,935)	-	-
Payment of dividend to minority interest in subsidiary	-	-	-
Net cash provided by financing activities	194,620	2,396,935	50,901
Effect of exchange rate changes on cash	25,926	(8,588)	(182)
Net increase in cash and cash equivalents during the year	212,583	2,666,706	56,630
Cash and cash equivalents at the beginning of the year	557,509	478,979	10,172
Cash and cash equivalents at the end of the year	Rs. 770,092	Rs. 3,145,685	US$ 66,802
Supplemental disclosures:			
Cash paid for:			
Interest	Rs. 98,127	Rs. 49,885	US$ 1,059
Income taxes	10,000	33,000	701
Supplemental schedule of non-cash investing activities:			
Property, plant and equipment purchased on credit during the year	21,915	13,747	292

See accompanying notes to the consolidated financial statements

1. Basis of preparation of unaudited interim financial statements

The unaudited interim consolidated financial statements as of June 30, 2001, and for the three months period ended June 30, 2000 and 2001, have been prepared on substantially the same basis as the audited financial statements for the year ended March 31, 2001, and include all adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the financial information set forth herein.

2. Convenience translation

The accompanying unaudited interim consolidated financial statements have been prepared in Indian rupees, the national currency of India. Solely for the convenience of the reader, the financial statements as of and for the three months period ended June 30, 2001 have been translated into United States dollars at the noon buying rate in New York City on June 29, 2001 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of US$1 = Rs.47.09. No representation is made that the Indian rupee amounts have been, could have been or could be converted into United States dollars at such a rate or any other rate.

3. Derivative financial instruments

On April 1, 2001, Dr. Reddy’s Laboratories Limited (the Company) adopted SFAS No.133, Accounting for Derivative Instruments and Hedging Activities as amended, when the rules became effective for companies with fiscal year ending March 31.

The Company enters into forward foreign exchange contracts where the counter party is generally a bank. The Company purchases forward foreign exchange contracts to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecasted cash flows denominated in certain foreign currencies. Although these contracts are effective as hedges from an economic perspective, they do not qualify for hedge accounting under SFAS No. 133, as amended.

Any derivative that is either not designated hedge, or is so designated but is ineffective as per SFAS No. 133, is marked to market and recognized in earnings immediately.

There were no initial transitional adjustments required to adopt SFAS No. 133.

4. Merger with Cheminor

On July 31, 2000, the shareholders of the Company and Cheminor Drugs Limited (Cheminor) approved a plan of merger. The final court approval for the merger was received in December 2000. The consummation of the combination and the transfer of shares were completed on February 20, 2001. Under the terms of the combination agreement, each outstanding equity share of Cheminor has been exchanged for 0.36 newly issued equity shares of DRL. Accordingly, upon consummation of the merger, 5,142,942 equity shares of the Company were issued to the Cheminor shareholders. The operations of Cheminor have been merged with the Company and Cheminor has ceased to exist as a distinct legal entity.

This business combination has been accounted for under the pooling-of-interests method of accounting and accordingly financial statements presented for all prior periods have been restated to include the results of operations, financial position and cash flow of Cheminor.

4. Merger with Cheminor (continued)

The results of operations previously reported by the separate enterprises and the combined amounts are summarized below:

	Three months ended June 30, 2000 (unaudited)
Revenues:	
DRL	Rs.1,710,570
Cheminor	776,185
Adjustments	(80,539)
	Rs.2,406,216
Net income / (loss):	
DRL	Rs.167,416
Cheminor	(70,845)
Adjustments	1,599
	Rs.98,170

The adjustments eliminate the effects of intercompany transactions. The effects of conforming Cheminor's accounting policies to that of DRL were not material.

5. Long-term debt

During the three months ended June 30, 2001, the Company has extinguished debentures, foreign currency loans and rupee term loans amounting to Rs.300,000, Rs.150,000 and Rs.787,925 respectively prior to their contractual maturities. The extinguishment has resulted in a loss of Rs.26,446 (net of tax of Rs. 14,683), which has been disclosed as an extraordinary item.

6. Initial Public Offering

In April 2001, the Company made a public offering of its American Depositary Shares (ADS's), to international investors. The offering consisted of 13,225,000 ADS's representing 6,612,500 equity shares, at an offering price of US$ 10.04 per ADS. The equity shares represented by the ADS carry equivalent rights as to voting and dividends as the other equity shares.

7. Retained earnings

Retained earnings as of March 31, 2001 computed as per generally accepted accounting principles in India include an amount of Rs.142,494, which was not distributable as dividends under Indian company laws. This related to requirements regarding earmarking a part of the retained earnings for redemption of debentures. On repayment of the debentures during the three months period ended June 30, 2001, these retained earnings became available for distribution.

8. Commitments and Contingencies

Capital Commitments: As of March 31, 2001 and June 30, 2001, the Company had committed to spend approximately Rs.67,562 and Rs.138,670 respectively, under agreements to purchase property and equipment. The amount is net of capital advances paid in respect of such purchases.

Contingencies: The Company manufactures and distributes Norfloxacin, a formulations product. Under the Drugs Prices Control Order (DPCO), the Government of India (GOI) has the authority to designate a pharmaceutical product as a 'specified product' and fix the maximum selling price for such product. In 1995, the GOI notified Norfloxacin as a 'specified product' and fixed the maximum selling price. The Company has filed a legal suit against the notification on the grounds that the rules of the DPCO were not complied with. The matter is currently under litigation in the Andhra Pradesh High Court (High Court). The High Court has granted an interim order in favor of the Company.

8. Commitments and Contingencies (continued)

Accordingly, the Company continues to sell Norfloxacin at prices in excess of the maximum selling price fixed by the GOI.

In the event that the Company is unsuccessful in the litigation, it will be required to refund the sale proceeds in excess of the maximum selling price to the GOI. As of March 31, 2001 and June 30, 2001 this excess is estimated at Rs.134,546 and Rs.137,288 respectively.

While the ultimate outcome of the above mentioned litigation cannot be ascertained at this time, based on current knowledge of the applicable law, management believes that this lawsuit should not have a material adverse effect on the Company's financial statements or its business operations. Additionally, the Company is also involved in other lawsuits, claims, investigations and proceedings, including patent and commercial matters, which arise in the ordinary course of business. However, there are no such matters pending that the Company expects to be material in relation to its business.

9. Segment reporting and related information

a) *Segment information*

The Chief Operating Decision Maker (CODM) evaluates the Company's performance and allocates resources based on an analysis of various performance indicators by product segments. The product segments and the respective performance indicators reviewed by the CODM are as follows:

- Formulations – Revenues by therapeutic product category;
- Active pharmaceutical ingredients and intermediates – Gross profit;
- Generics– Gross profit;
- Diagnostics, critical care and biotechnology – Net income; and
- Drug discovery – Revenues and expenses.

The CODM of the Company does not review the total assets for each reportable segment. The property and equipment used in the Company’s business, depreciation and amortization expenses, are not fully identifiable/ allocable with / to individual reportable segments, as certain assets are used interchangeably between segments. The other assets are not specifically allocable to the reportable segments. Consequently, management believes that it is not practicable to provide segment disclosures relating to total assets since allocation among the various reportable segments is not possible.

9. Segment reporting and related information (continued)

Formulations

Formulations, also referred to as finished dosages, consist of finished pharmaceutical products ready for consumption by the patient. An analysis of revenues by therapeutic category of the formulations segment is given below:

	Three months ended June 30,	
	2000	2001
	(unaudited)	
Gastro-intestinals	Rs.194,471	Rs.262,034
Cardio–vasculars	193,179	334,426
Anti–infectives	166,622	190,484
Pain control	160,853	207,519
Nutrients	82,147	127,195
Others	270,692	275,553
	1,067,964	1,397,211
Adjustments[1]	57,219	(43,871)
Total revenues	Rs.1,125,183	Rs.1,353,340
Cost of revenues	Rs.340,691	Rs.340,609
Intersegment cost of revenues[2]	149,624	146,953
Adjustments[1]	(67,144)	1,723
	Rs.423,1	Rs.489,285
Gross profit	Rs.577,649	Rs.909,649
Adjustments[1]	124,363	(45,594)
	Rs.702,012	Rs.864,055

(1) The adjustments represent reconciling items to conform the segment information with U.S. GAAP. Such adjustments primarily relate to elimination of sales made to subsidiaries, reversal of sales made to consignment agents, reversal of gain contingencies and recording of inventory write-downs.

(2) Intersegment cost of revenues comprise of transfers from active pharmaceutical ingredients and intermediates to formulations and are accounted for at the cost to the transferring segment. Transfers from API segment amounted to Rs.149,624 and Rs.146,953 for the three months ended June 30, 2000 and 2001 respectively.

Active pharmaceutical ingredients and intermediates

Active pharmaceutical ingredients and intermediates, also known as active pharmaceutical products or bulk drugs, are the principal ingredients for formulations. Active pharmaceutical ingredients and intermediates become formulations when the dosage is fixed in a form ready for human consumption such as a tablet, capsule or liquid using additional inactive ingredients.

Upon consummation of the merger with Cheminor, the performance of active pharmaceutical ingredients and intermediates (API segment) is viewed on a consolidated basis including DRL and Cheminor API segment. The CODM currently reviews gross profit along with revenues by geographic segments and key products as performance indicators for the consolidated API segment. Accordingly, to the extent practicable, previous period has also been presented on the same basis as the new segment information.

9. Segment reporting and related information (continued)

An analysis of gross profit for the API segment is given below:

	Three months ended June 30,	
	2000	2001
	(unaudited)	
Revenues from external customers	Rs.1,090,578	Rs.1,179,561
Intersegment revenues[1]	149,624	225,228
Adjustments[2]	110,536	40,968
Total revenues	Rs.1,350,738	Rs.1,445,757
Cost of revenues	Rs.1,167,731	Rs.777,520
Intersegment cost of revenues[1]	-	-
Adjustments[2]	93,925	333,208
	Rs.1,261,656	Rs.1,110,728
Gross profit	Rs.260,321	Rs.627,269
Adjustments[2]	16,611	(292,240)
	Rs.276,932	Rs.335,029

(1) Intersegment revenues comprise of transfers to formulations and are accounted for at the cost to the transferring segment. Transfers to formulations segment amounted to Rs.149,624 and Rs.146,953, for the three months ended June 30, 2000 and 2001 respectively. Transfers to the generics segment amounted to Rs. 78,275 for the three months ended June 30, 2001.

(2) The adjustments represent reconciling items to conform the segment information with U.S. GAAP. Such adjustments primarily relate to elimination of sales made to subsidiaries, reversal of gain contingencies and recording of inventory write-downs.

An analysis of revenue by geography is given below:

	Three months ended June 30,	
	2000	2001
	(unaudited)	
USA	Rs.465,149	Rs.392,030
India	274,452	563,354
Europe	174,294	119,920
Others	326,307	329,485
	1,240,202	1,404,789
Adjustments[1]	110,536	40,968
	Rs.1,350,738	Rs.1,445,757

(1) The adjustments represent reconciling items to conform the segment information with U.S. GAAP. Such adjustments primarily relate to elimination of sales made to subsidiaries, reversal of gain contingencies and recording of inventory write-downs.

9. Segment reporting and related information (Continued)

An analysis of revenues by key products for the three months ended June 30, 2001 is given below:

	Three months ended June 30, 2001 (unaudited)
Ranitidine	Rs.130,742
Naproxen	69,758
Ibuprofen	85,772
CIS (+) Lactum	8,323
Doxazosin mesylate	4,192
Diltiazem	8,548
Ciprfloxacin hydrochloride	150,896
Dexromethorphan	39,883
Enrofloxacin	54,293
Domperidome	45,796
Lansoprazole pellets	19,205
Losarton Pottasium	28,037
N-methyl-4-chloro piperidine	35,089
Norfloxacin	21,302
Terbanifine	22,561
Olanzapine form-1	23,980
Ramipril BP	34,264
Sertraline HCL-others	50,692
Sparfloxacin	43,381
Others	569,043
	Rs.1,445,757

Management believes that consequent to changes in the reporting structure upon consummation of the merger, it is not practicable to present an analysis of revenues by key products for the previous period.

Generics

Generics are generic finished dosages with therapeutic equivalence to branded formulations. The Company entered the global generics market during the year ended March 31, 2001 with the export of Ranitidine-75mg and Oxaprozin to North America. No revenues were derived from this segment during the three months ended June 30, 2000.

An analysis of gross profit for the generics segment is given below.

	Three months ended June 30, 2001 (unaudited)
Revenues	Rs.318,828
Cost of revenues	Rs.58,992
Intersegment cost of revenues[1]	78,275
	Rs.137,267
Gross profit	Rs.181,561

(1) Intersegment cost of revenues comprise of transfers from active pharmaceuticals ingredients and intermediates to generics and are accounted for at the cost to the transferring segment.

9. Segment reporting and related information (Continued)

Diagnostics, critical care and biotechnology

Diagnostic pharmaceuticals and equipment and specialist products are produced and marketed by the Company primarily for anti-cancer and critical care. An analysis of net income for the diagnostics, critical care and biotechnology segment is given below:

	Three months ended June 30,	
	2000	2001
	(unaudited)	
Revenues	Rs.73,551	Rs.89,857
Cost of revenues	28,029	41,381
Gross profit	45,522	48,476
Employee costs	4,724	7,126
Other selling, general and administrative expenses	13,532	9,625
Other expense / (income), net…	111	54
Net income / (loss)	Rs.27,155	Rs.31,671

Drug discovery

The Company is involved in drug discovery through Dr. Reddy's Research Foundation. The Company commercializes drugs discovered with other products and also licenses these discoveries to other companies. No revenues were derived from this segment during the three months ended June 30, 2000 and 2001. An analysis of the expenses of the drug discovery segment is given below:

	Three months ended June 30,	
	2000	2001
	(unaudited)	
Research and development expenses	Rs.55,962	Rs.46,105

Reconciliation of segment information to entity total

	Three months ended June 30, 2000		Three months ended June 30, 2001	
	Revenues	Gross profit	Revenues	Gross profit
	(unaudited)		(unaudited)	
Formulations	Rs.1,125,183	Rs.702,012	Rs.1,353,340	Rs.864,055
Active pharmaceutical ingredients and intermediates	1,350,738	276,932	1,445,757	335,029
Generics	-	-	318,828	181,561
Diagnostics, critical care and biotechnology	73,551	45,522	89,857	48,476
Drug discovery	-	-	-	-
Others	6,368	(4,736)	12,346	(1,611)
Less: Intersegment revenues[(1)]	(149,624)	-	(225,228)	-
	Rs.2,406,216	Rs.1,019,730	Rs.2,994,900	Rs.1,427,510

(1) Intersegment transfers are accounted for at the cost to the transferring segment.

9. Segment reporting and related information (Continued)

b) *Analysis of revenue by geography*

The Company's business is organized into five key geographic segments. Revenues are attributable to individual geographic segments based on the location of the customer.

	Three months ended June 30,	
	2000	2001
	(unaudited)	
India	Rs. 1,356,506	Rs.1,384,418
Europe	162,079	122,949
USA	251,070	709,172
Russia and other countries of the former Soviet Union	183,027	343,076
Others	453,534	435,285
	Rs.2,406,216	Rs.2,994,900

c) *Analysis of property, plant and equipment by geography*

Property, plant and equipment (net) attributed to individual geographic segments are given below:

	As of June 30, 2001	As of March 31, 2001
	(unaudited)	
India	Rs.3,202,666	Rs.3,200,980
Europe	3,070	3,113
USA	33,249	24,536
Russia and other countries of the former Soviet Union	21,272	14,693
Others	523	384
	Rs.3,260,780	Rs. 3,243,706

d) *Major customers*

No single customer accounted for more than 10% of the revenues of the Company during the three months ended June 30, 2000 and 2001.

10. Recent accounting pronouncements

Business Combinations, Goodwill and Other Intangible Assets: In July 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142.

SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.

The Company is required to adopt the provisions of SFAS No. 141 immediately and SFAS No. 142 effective April 1, 2002.

10. Recent accounting pronouncements (Continued)

SFAS No. 141 will require upon adoption of SFAS No. 142, that the Company evaluate its existing intangible assets and goodwill that were acquired in a prior purchase business combination, and to make any necessary reclassifications in order to conform with the new criteria in SFAS No. 141 for recognition apart from goodwill. Upon adoption of SFAS No. 142, the Company will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortization period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

If an intangible asset is identified as having an indefinite useful life, the Company will be required to test the intangible asset for impairment in accordance with the provisions of SFAS No. 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognized as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, SFAS No. 142 will require the Company to perform an assessment of whether there is an indication that goodwill and equity-method goodwill is impaired as of the date of adoption. To accomplish this the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. The Company will then have upto six months from the date of adoption to determine the fair value of each reporting unit and compare it to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. In the second step, the Company must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of it assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141, to its carrying amount, both of which would be measured as of the date of adoption. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

Due to the extensive effort needed to comply with adopting SFAS No. 141 and 142, it is not currently practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle.

OPERATING AND FINANCIAL REVIEW

Investors are cautioned that this discussion contains forward-looking statements that involve risks and uncertainties. When used in this discussion, the words “anticipate”, “believe”, “estimate”, “intend”, “will” and “expect” and other similar expressions as they relate to us or our business are intended to identify such forward-looking statements. We undertake no obligation to publicly update or revise the forward-looking statements, whether as a result of new information, future events, or otherwise. Actual results, performances or achievements could differ materially from those expressed or implied in such forward-looking statements. Factors that could cause or contribute to such differences include those described under the heading “Risk Factors” in our current Form 20-F on file with the SEC. Readers are cautioned not to place reliance on these forward-looking statements that speak only as of their dates. The following discussion and analysis should be read in conjunction with our financial statements included herein and the notes thereto.

Result of Operations

The following table sets forth, for the periods indicated, our consolidated net operating revenues by segment:

	Quarter Year Ended June 30,		
	2000	2001	2001
		(unaudited)	
	(Rs. in millions, US$ in thousands)		
Formulations	Rs.1,125.2	Rs.1,353.3	US$ 28,739
Active pharmaceutical ingredients and Intermediates	1,201.1	1,220.4	25,916
Generics	-	318.9	6,772
Diagnostics, critical care and Biotechnology	73.6	89.9	1,909
Drug discovery	-	-	-
Other	6.3	12.4	263
Total Revenues	Rs.2,406.2	Rs.2,994.9	US$ 63,599

Quarter Ended June 30, 2001 Compared to Quarter Ended June 30, 2000

Revenues

Revenues increased by 24.5% to Rs.2,994.9 million in the three months ended June 30, 2001 from Rs.2,406.2 million in the three months ended June 30, 2000 primarily due to an increase in revenues from generic formulations, branded formulations and active pharmaceutical ingredients segments. In the three months ended June 30, 2001, we received 46.2% of our revenues from India, 23.7% from the United States of America, 11.4% from Russia and other former Soviet Union countries, 4.1% from Europe and 14.6% from other countries. Sales in the United States had a record growth of 182.4% to Rs.709.1 million in the three months ended June 30, 2001 from Rs.251.1 million in the three months ended June 30, 2000. Sales in India increased by 2.1% to Rs.1,384.5 million in the three months ended June 30, 2001 from Rs.1,356.5 million in the three months ended June 30, 2000. Sales to Russia and other countries of the former Soviet Union increased by 87.5% to Rs.343.1 million in the three months ended June 30, 2001 from Rs.183.0 million in the three months ended June 30, 2000. Sales to Europe decreased by 24.2% to Rs.122.9 million in the three months ended June 30, 2001 from Rs.162.1 million in the three months ended June 30, 2000.

We made allowances for sales returns of Rs.5.8 million and Rs.6.4 million in the three months ended June 30, 2001 and the three months ended June 30, 2000, respectively. Actual returns during the same periods were Rs. 1.2 million and Rs. 2.6 million, respectively.

Formulations. In the three months ended June 30, 2001, we received 45.2% of our total revenues from the formulations segment, compared to 46.8% in the three months ended June 30, 2000. Revenues in this segment increased by 20.3% to Rs.1,353.3 million in the three months ended June 30, 2001 from Rs.1,125.2 million in the three months ended June 30, 2000.

Sales in India constituted 67.9% of our total formulations sales in the three months ended June 30, 2001 and 72.2% in the three months ended June 30, 2000. Sales of formulations in India increased by 13.1% to Rs.918.5 million in the three months ended June 30, 2001 from Rs.812.2 million in the

three months ended June 30, 2000. Among our existing brands, the overall increase in sales was primarily due to increased sales of Nise, our brand of Nimesulide, Antoxid an anti-oxidant, Stamlo Beta, our brand of Amlodipine besylate and atenolol and Omez, our brand of Omeprozole. This was partially offset by a decrease in revenues from Ciprolet, our brand of Ciprofloxacin.

Sales of formulations outside India increased by 38.9% to Rs.434.8 million in the three months ended June 30, 2001 from Rs.313.0 million in the three months ended June 30, 2000. Sales of formulations to Russia constituted 67.6% of our formulation sales outside India in the three months ended June 30, 2001 and 42.6% in the three months ended June 30, 2000. Sales of formulations to Russia increased by 120.3% to Rs.293.9 million in the three months ended June 30, 2001 from Rs.133.4 million in the three months ended June 30, 2000. Enam, our brand of Enalapril Maleate, Omez, our brand of Omeprozole, and Ciprolet, our brand of Ciprofloxacin, contributed to the increase of export sales. This was partially offset by a decrease in revenues from Histalong, our brand of Astemizole and discontinuance of Benzenil, a traded product (Benzenil is not a manufactured product but is purchased externally and then sold).

Active Pharmaceutical Ingredients and Intermediates. In the three months ended June 30, 2001, we received 40.7% of our total revenues from this segment, compared to 49.9% in the three months ended June 30, 2000. Revenues in this segment increased by 1.6% to Rs.1,220.4 million in the three months ended June 30, 2001 from Rs.1,201.1 million in the three months ended June 30, 2000.

During the three months ended June 30, 2001, sales in India constituted 31.1% of our revenue from this segment compared to 39.4% in the three months ended June 30, 2000. Sales in India decreased by 19.8% to Rs.379.1 million in the three months ended June 30, 2001 from Rs.472.9 million in the three months ended June 30, 2000. The domestic market continued to face stiff competition from within the industry and also on account of aggressive pricing from Chinese companies, resulting in a fall in the sales prices of products. The decrease in domestic revenues was primarily due to a fall in sales volume of Ranitidine, Ibuprofen and Celecoxib. This was offset to some extent by an increase in sales volume of Sparfloxacin and Ramipril. Norfloxacin production was stopped in the three months ended June 30, 2001 and the related production capacities were partially utilized for the production of Losartan and Sparfloxacin.

Sales outside India increased by 15.5% to Rs.841.3 million in the three months ended June 30, 2001 from Rs.728.2 million in the three months ended June 30, 2000. Sales in the United States increased by 56.1% to Rs.392.0 million in the three months ended June 30, 2001 from Rs.251.1 million in the three months ended June 30, 2000. Sales in Europe decreased by 25.5% to Rs.119.9 million in the three months ended June 30, 2001 from Rs.160.9 million in the three months ended June 30, 2000. Increase in export revenues was primarily due to Ibuprofen, Naproxen and Rantidine. This was partially offset by decrease in revenues from Doxazosin Mesylate and Cis Lactam.

Generics. In the three months ended June 30, 2001, this segment accounted for 10.6% of the total revenues, contributing Rs.318.9 million. This is primarily due to revenues from Ranitidine 75mg tablets and Oxaprozin 600 mg tablets. Generic sales commenced only in the second half of fiscal year 2001.

Diagnostics, Critical Care and Biotechnology. In the three months ended June 30, 2001, we received 3.0% of our total revenues from this segment compared to 3.1% in the three months ended June 30, 2000.

Revenues in this segment increased by 22.1% to Rs.89.9 million in the three months ended June 30, 2001 from Rs.73.6 million in the three months ended June 30, 2000. This increase was largely due to an increase in sales of our critical care products by 37.7% to Rs.53.3 million in the three months ended June 30, 2001 from Rs.38.7 million in the three months ended June 30, 2000. This was primarily due to an increase in sales of Cytogem, our new brand of Gemcitabine, Irnocam our new brand of Irnotican, Mitotax, our brand of Paclitaxel and Pamired, our new brand of Pamidronate. Sales of diagnostics products increased by 4.9% to Rs.36.6 million in the three months ended June 30, 2001 from Rs.34.9 million in the three months ended June 30, 2000. This was primarily due to an increase in sales of Velocit.

Drug Discovery. In the three months ended June 30, 2001 and the three months ended June 30, 2000, we did not receive any revenue from this segment.

Others. Revenues from our other business constituted an insignificant portion of our total revenues in the three months ended June 30, 2001 and the three months ended June 30, 2000.

Cost of Revenues

Cost of revenues increased by 13.0% to Rs.1,567.4 million in the three months ended June 30, 2001 from Rs.1,386.5 million in the three months ended June 30, 2000. Cost of revenues as a percentage of total revenues was 52.3% in the three months ended June 30, 2001 compared to 57.6% in the three months ended June 30, 2000.

Formulations. Cost of revenues in this segment decreased to 36.1% of formulations revenues in the three months ended June 30, 2001 compared to 37.6% in the three months ended June 30, 2000. This was primarily due to a decrease in cost of raw materials. Cost of raw materials decreased to 20.0% of this segment's revenues in the three months ended June 30, 2001 from 23.3% in the three months ended June 30, 2000, due to a decrease in the price of active pharmaceutical ingredients and intermediates particularly in the case of Ciprofloxacin, Ketorolac and Enalapril Maleate.

Active Pharmaceutical Ingredients and Intermediates. Cost of revenues in this segment was 72.5% of this segment’s revenues in the three months ended June 30, 2001 compared to 76.9% in the three months ended June 30, 2000. This decrease was primarily due to decrease in cost of raw materials and partial shift to exports market. Cost of raw materials decreased to 48.1% of revenues in the three months ended June 30, 2001 from 50.3% in the three months ended June 30, 2000 of this segment’s revenues. Exports in this segment as a percentage of revenues from this segment in the three months ended June 30, 2001 is 68.9% as against 60.6% in the three months ended June 30, 2000. Domestic and imported material costs have come down, particularly Cyclopropalamine, which is used in Ciprofloxacin, a major product for us in terms of quantity and production, ECPP Analine, used in Enalapril and Acetophenone, used in Ciprofloxacin and Enrofloxacin. In the three months ended June 30, 2001, additional duty of 4% on import of raw materials was removed resulting in lower costs of imported raw materials.

Generics. Cost of revenues was 43.1% of this segment’s revenues amounting to Rs.137.3 million in the three months ended June 30, 2001.

Diagnostics, Critical Care and Biotechnology. Cost of revenues in this segment was 46.1% of this segment's revenues in the three months ended June 30, 2001 compared to 38.0% in the three months ended June 30, 2000. The cost of revenues increased by 47.9% to Rs.41.4 million in the three months ended June 30, 2001 compared to Rs.28.0 million in the three months ended June 30, 2000. This increase was primarily due to increase in the cost of raw material particularly for Paclitaxel.

Gross Profit

As a result of the trends described above, our gross profit increased by 40.0% to Rs.1,427.5 million in the three months ended June 30, 2001 from Rs.1,019.7 million in the three months ended June 30, 2000. Gross margin was 47.7% in the three months ended June 30, 2001 compared to 42.4% in the three months ended June 30, 2000.

Gross profit in the formulations segment grew by 23.1% to Rs.864.1 million in the three months ended June 30, 2001 from Rs.702.0 million in the three months ended June 30, 2000. Gross margin of the formulations segment increased to 63.9% in the three months ended June 30, 2001 compared to 62.4% in the three months ended June 30, 2000. Gross margin for the active pharmaceutical ingredients segment increased to 27.5% in the three months ended June 30, 2001 from 23.1% in the three months ended June 30, 2000. The diagnostics, critical care and biotechnology segment registered a 6.6% increase in gross profit to Rs.48.5 million in the three months ended June 30, 2001 compared to Rs.45.5 million in the three months ended June 30, 2000. Gross profit for the generics segment in the three months ended June 30, 2001 was Rs.181.6 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 28.4% to Rs.738.4 million in the three months ended June 30, 2001 from Rs.575.1 million in the three months ended June 30, 2000. Selling, general and administrative expenditure as a percentage of total revenues was 24.7% in the three months ended June 30, 2001 compared to 23.9% in the three months ended June 30, 2000. This increase was largely due to an increase in marketing expenses, employee costs and legal and professional fees. Employee costs have increased by 31.1% to Rs.165.0 million in the three months ended June 30, 2001 from Rs.125.9 million in the three months ended June 30, 2000. Marketing expenses increased by 40.2% to Rs.349.0 million in the three months ended June 30, 2001 from Rs.249.0 million in the three months ended June 30, 2000. Marketing expenses increased on account of distribution of samples in the Russian market and increased salaries and training costs of marketing personnel. Legal and professional expenses increased due to consulting fees incurred towards launch of our new corporate logo and overseas recruitment process.

Research and Development Expenses

Research and development costs decreased by 37.7% to Rs.61.9 million in the three months ended June 30, 2001 from Rs.99.4 million in the three months ended June 30, 2000. The decrease was primarily due to high cost research activities for the three months ended June 30, 2000 while the major expenses of research and development were incurred during the last quarter of fiscal 2001.

Amortization Expenses

Amortization expense increased by 1.6% to Rs.116.4 million in the three months ended June 30, 2001 from Rs.114.6 million in the three months ended June 30, 2000. This increase was primarily due to the amortization of intangibles arising out of the acquisition of the three brands of Dai-Iche in July 2000. Amortization as a percentage of sales decreased to 3.9% in the three months ended June 30, 2001 from 4.8% in the three months ended June 30, 2000.

Foreign Exchange Gain or Loss

Foreign exchange gain was Rs.5.5 million in the three months ended June 30, 2001 in comparison with Rs.5.4 million in the three months ended June 30, 2000. An increase in exports contributed to foreign exchange gain for the three months ended June 30, 2001. One of the contributing factors for foreign exchange gain for the three months ended June 30, 2000 was the extent of the fall in the value of the Rupee against the U.S. dollar. This was partially offset by foreign exchange loss arising on account of appreciation of US Dollar against the Russian rouble.

Operating Income

As a result of the foregoing, our operating income increased by 118.7% to Rs.516.3 million in the three months ended June 30, 2001 from Rs.236.1 million in the three months ended June 30, 2000. Operating income as a percentage of total revenue was 17.2% in the three months ended June 30, 2001 compared to 9.8% in the three months ended June 30, 2000.

Equity in Loss of Affiliates

Our equity in the loss of our affiliates increased by 304.4% to Rs.27.5 million in the three months ended June 30, 2001 from Rs.6.8 million in the three months ended June 30, 2000. This was primarily due to losses in Kunshan Rotam Reddy Pharmaceutical Co. Ltd., our Chinese joint venture.

Other Expenses, Net

For the three months ended June 30, 2001 we had other income of Rs.8.3 million as against another expense of Rs. 84.7 million for the three months ended June 30, 2000. This was primarily due to decrease in financing costs resulting from settlement of debts and interest earned on deposit of the proceeds of our ADS offering.

Income before Income Taxes and Minority Interest

As a result of the foregoing, income before income taxes and minority interest has increased by 243.8% to Rs.497.1 million in the three months ended June 30, 2001 from Rs.144.6 million in the three months ended June 30, 2000. As percentage of revenues, income before income taxes and minority interest is 16.6% of revenues in the three months ended June 30, 2001 as against 6.0% of revenues in the three months ended June 30, 2000.

Income Tax Benefit / Expense

Income tax expense decreased by 49.9% to Rs.24.1 million in the three months ended June 30, 2001 from Rs.48.1 million in the three months ended June 30, 2000. Our effective tax rate decreased to 4.8% in the three months ended June 30, 2001 from 33.3% in the three months ended June 30, 2000. By comparison, the statutory tax rate in India was 35.70% in the three months ended June 30, 2001 and 39.55% in the three months ended June 30, 2000. In the three months ended June 30, 2001, our effective tax was significantly lower than the statutory tax rate primarily due to the decrease in tax rate and tax exemption of profits from exports from India as well as profits derived from units qualifying for tax exemption under the Income Tax Act, 1961, which contributed to decrease in effective tax rate in comparison with statutory tax rate.

Minority Interest

Profit attributable to minority interest was Rs.6.6 million in the three months ended June 30, 2001 compared to loss attributable to minority interest Rs.1.7 million in the three months ended June 30, 2000, that represents the share of minority interest of American Remedies Limited**.**

Net Income

Our net income increased by 374.9% to Rs.466.4 million in the three months ended June 30, 2001 from Rs.98.2 million in the three months ended June 30, 2000. Net income as a percentage of total revenue increased to 15.6% in the three months ended June 30, 2001 from 4.1% in the three months ended June 30, 2000.

Extraordinary Loss on Early Extinguishment of Debt

We incurred a loss of Rs.26.5 million, net of income tax benefit of Rs.14.7 million, in the three months ended June 30, 2001 on early extinguishment of debt.

Net Income after extraordinary item

Our net income after extraordinary item increased by 348.0% to Rs.439.9 million in the three months ended June 30, 2001 from Rs. 98.2 million in the three months ended June 30, 2000.

Liquidity and Capital Resources

We have generally financed all our operations through cash flows generated from operations and short-term and long-term debt raised through the issuance of promissory notes and other financial instruments. Our principal liquidity and capital needs are for making investments and purchase of property, plant and equipment as well as for regular purchases.

Our external sources of funds for working capital or for purchase of capital goods are from banks and financial institutions. The funding from banks has been periodically enhanced from time to time to meet our increased requirements. In our opinion, the working capital requirements, which are available currently, are sufficient to meet with the requirements for the operations. With regard to the subsidiaries, there are no legal and economic restrictions for the transfer of funds between subsidiaries or for transfer of funds in form of cash dividends, loans or advances.

The maturities for borrowings, which are short term in nature, vary from one month to about a year. With respect to long-term debt, maturities vary between three to ten years. However, banks have sanctioned the limits without any restrictions on its use. Our objective in determining the borrowing maturity is to ensure a balance between flexibility, cost and the continuing availability of funds. The

entire debts except for short-term working capital loans from banks are at fixed rate of interest. Cash and cash equivalents are held in Indian rupee, US dollar, Singapore dollar, Brazilian real, Euro, Netherlands guilders and Russian rouble.

Treasury policies

The Corporate Treasury seeks to reduce or eliminate financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. We operate within the policies and procedures, which are in line with overall corporate objectives and business goals.

Cash flow from financing activities for the three months ended June 30, 2001 was Rs.2,396.9 million, primarily due to inflow of funds on account of ADR issue to the tune of Rs.5,846.4 million, which has partially offset by repayment of long-term borrowings of Rs.1,291.5 million and short-term borrowings of Rs.2,160.7 million. Cash provided by financing activities was Rs.194.6 million in the three months ended June 30, 2000, primarily from borrowings from banks to the tune of Rs.246.2 million

The following table provides a list of our principal debts outstanding as of June 30, 2001:

	Principal Amount (in millions)		**Interest Rate**
Debt			
Working capital loans	Rs.408.4	US$ 8.7	8.50% to 14.50%
Loans Denominated in U.S. dollars[(1)]	75.2	1.6	Libor + 65 to 100 bps
Long term loan	45.5	1.0	2.00% to 14.00%
Total	Rs. 529.1	US$ 11.3	

[(1)]Six-month Libor as of June 30, 2001 was 3.91%

Recent Developments

- We have received approval for changing the name of Reddy Cheminor, Inc. to Dr. Reddy's Laboratories, Inc. pursuant to our filing an application for registration of alternate name on June 22, 2001.

- We received the court order on June 25, 2001 from the Andhra Pradesh High Court for the scheme of merger of American Remedies Limited with us. We are in the process of implementing the scheme of merger.

- We have received approval from USFDA for launch of Fluoxetine 40MG under 180 days exclusivity in US generic markets and we have launched the same in August 2001.