

DR. REDDY'S LABORATORIES LTD.

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Dr. Reddy's Q3 & 9M FY20 Financial Results

Hyderabad, India, January 27, 2020: Dr. Reddy's Laboratories Ltd. (BSE: 500124 | NSE: DRREDDY | NYSE: RDY) today announced its consolidated financial results for the quarter ended December 31, 2019 under International Financial Reporting Standards (IFRS).

Q3 Performance Summary

₹4,384 Cr

Revenue

[Down: 9% QoQ; Up: 14% YoY]

54.1%

Gross Margin

[Q2 FY20: 57.5%; Q3 FY19: 53.9%]

₹1,267 Cr

SGNA expenses

[Down: 4% QoQ, Up: 5% YoY]

₹395 Cr

R&D expenses

[9.0% of Revenues]

₹1,074 Cr

EBITDA

[Down: 25% QoQ; Up: 24% YoY]

₹(527 Cr)*

Profit before Tax

[Down: 169% QoQ; 191% YoY]

9M Performance Summary

₹13,028 Cr

Revenue

[Up: 15% YoY]

54.7%

Gross Margin

[9M FY19: 54.9%]

₹3,795 Cr

SGNA expenses

[Up: 4% YoY]

₹1,122 Cr

R&D expenses

[8.6% of Revenues]

₹3,642 Cr

EBITDA

[Up: 44% YoY]

₹1,089 Cr

Profit before Tax

[Down: 34% YoY]

* Excluding intangibles impairment of ₹1,320 Cr; Profit before tax is ₹793 Cr

Commenting on the results, Co-Chairman and MD, GV Prasad said "The current quarter performance has been good across all our businesses and we achieved strong EBITDA margins. The profits were impacted due to trigger based impairment charge taken on a few products including gNuvaring. We continue to focus on execution and have made significant progress on quality systems and operational efficiencies".

Dr. Reddy's Laboratories Limited and Subsidiaries

Consolidated Income Statement

Particulars	Q3 FY20		Q3 FY19		YoY Gr %	Q2 FY20		QoQ Gr%
	(\$)	(Rs.)	(\$)	(Rs.)		(\$)	(Rs.)	
Revenues	614	43,838	540	38,500	14	673	48,009	(9)
Cost of Revenues	282	20,116	249	17,748	13	286	20,389	(1)
Gross Profit	332	23,722	291	20,752	14	387	27,620	(14)
Operating Expenses								
Selling, General & Administrative expenses	178	12,670	169	12,036	5	185	13,217	(4)
Research and Development expenses	55	3,949	51	3,668	8	51	3,662	8
Impairment of non-current assets	185	13,200	-	-		50	3,560	271
Other operating (income)	(3)	(228)	(10)	(681)	(67)	(2)	(135)	68
Results from operating activities	(82)	(5,869)	80	5,729	(202)	103	7,316	(180)
Net finance (income)	(6)	(419)	0	13		(3)	(231)	81
Share of (profit) / loss of equity accounted investees	(2)	(176)	(1)	(89)	98	(2)	(117)	50
Profit before income tax	(74)	(5,274)	81	5,805	(191)	107	7,664	(169)
Income tax expense	6	423	13	953	(56)	(46)	(3,261)	(113)
Profit for the period	(80)	(5,697)	68	4,852	(217)	153	10,925	(152)

Diluted Earnings Per Share (EPS)	(0.48)	(34.37)	0.41	29.21	(217)	0.92	65.82	(152)
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As % to Revenues	Q3 FY20	Q3 FY19	Q2 FY20
Gross Profit	54.1	53.9	57.5
SG&A	28.9	31.3	34.9
R&D	9.0	9.5	7.6
EBITDA	24.5	22.5	29.9
PBT*	(12.0)	15.1	16.0
PAT	(13.0)	12.6	22.8

*Excluding intangibles impairment Q3 FY20 PBT @ 18.1%

EBITDA Computation

Particulars	Q3 FY20		Q3 FY19		Q2 FY20	
	(\$)	(Rs.)	(\$)	(Rs.)	(\$)	(Rs.)
Profit before Income Tax	(74)	(5,274)	81	5,805	107	7,664
Interest (income) net*	(4)	(274)	(4)	(260)	(3)	(226)
Depreciation	30	2,130	29	2,073	32	2,306
Amortization	13	955	14	1,035	14	1,033
Impairment	185	13,200	-	-	50	3,561
EBITDA	150	10,737	121	8,652	201	14,338

* Includes income from Investments

Note: Q3 FY20 Financials include an impairment charge of Rs. 13,200 million on some of the Company's products forming part of Global Generics and Proprietary Products segments

Q2 FY20 Financials include Rs. 6,901 million from the out-licensing income, net of expenses related to Neuro products of Proprietary Products

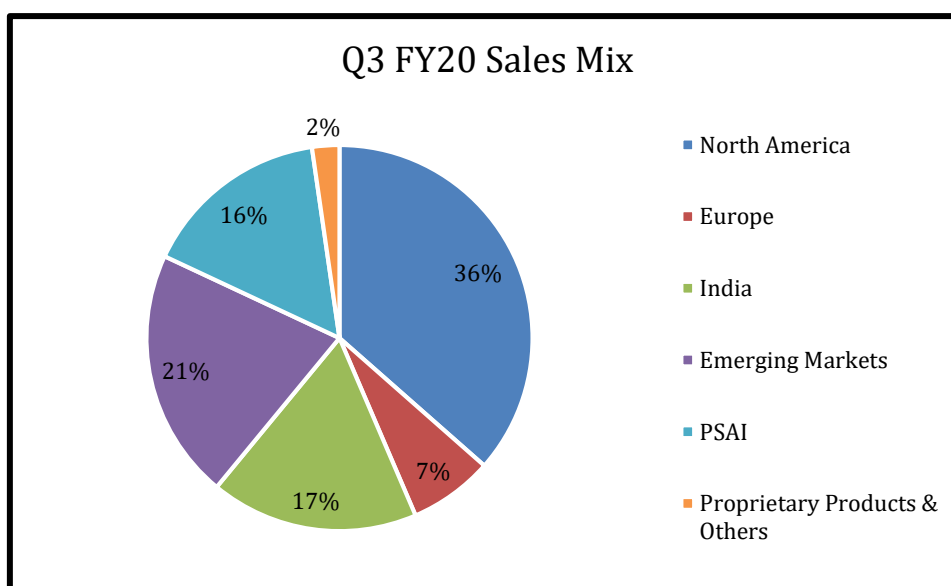
Q2 FY20 Financials include an impairment charge of Rs. 3,561 million on some of the Company's products forming part of Global Generics segment

Key Balance Sheet Items

Particulars	As on 31 st Dec, 2019		As on 30 th Sep 2019		As on 31 st Dec 2018	
	(\$)	(Rs.)	(\$)	(Rs.)	(\$)	(Rs.)
Cash and cash equivalents and other investments	287	20,457	427	30,446	359	25,593
Trade receivables (current & non-current)	646	46,095	591	42,153	523	37,302
Inventories	529	37,746	491	35,033	475	33,911
Property, plant and equipment	739	52,709	743	53,008	776	55,344
Goodwill and Other Intangible assets	432	30,847	621	44,340	690	49,205
Loans and borrowings (current & non-current)	229	16,320	442	31,545	614	43,836
Trade payables	250	17,810	216	15,434	223	15,939
Equity	2,083	1,48,672	2,155	1,53,816	1,902	1,35,708

Revenue Mix by Segment

Particulars	Q3 FY20	Q3 FY19	YoY Growth %	Q2 FY20	QoQ Growth %
	(Rs.)	(Rs.)		(Rs.)	
Global Generics	35,927	31,347	15%	32,816	9%
North America	15,999	14,832	8%	14,265	12%
Europe	3,093	2,030	52%	2,764	12%
India	7,636	6,741	13%	7,511	2%
Emerging Markets	9,199	7,744	19%	8,276	11%
Pharmaceutical Services and Active Ingredients (PSAI)	6,906	5,937	16%	7,107	-3%
Proprietary Products & Others	1,005	1,216	(18%)	8,086	(88%)
Total	43,838	38,500	14%	48,009	(9%)



Revenue analysis (Segment wise)

Sales for the quarter is ₹43.8 billion with a year-on-year growth of 14%. Sequentially, it has declined by 9%. In Q2 FY 20, we had out-licensed 2 neuro products of the proprietary products business and recognized a revenue of ₹7.2 billion. Adjusted for this, the sequential quarter growth is 7%, and is highest ever quarterly sales from operations, without any one-off item.

Global Generics (GG)

Revenues from **GG** segment at ₹35.9 billion. Year-on-year growth of 15%, primarily driven by Europe, Emerging Markets and India. Sequential growth of 9%, primarily driven by NAG, Europe and EM.

- Revenues from **North America** at ₹16.0 billion. Year-on-year revenues grew by 8%. Sequential growth of 12%, largely on account of higher volumes in some of our key molecules partly offset by price erosion in some of our key molecules. We launched five new products (Bortezomib injection, Doxercalciferol, Deferasirox dispersable tabs, Deferasirox film coated tabs, Sodium Nitroprusside injection) during the quarter.

As of 31st December 2019, cumulatively 101 generic filings are pending for approval with the USFDA (99 ANDAs and 2 NDAs under 505(b)(2) route). Of these 99 ANDAs, 53 are Para IVs out of which we believe 32 have 'First to File' status.

- Revenues from **Emerging Markets** at ₹9.2 billion. Year-on-year growth is 19%. Sequential growth is 11%.
 - Revenues from **Russia** at ₹4.9 billion. Year-on-year growth of 20%. Growth primarily driven by increase in volumes coupled with better realizations in some of the key molecules.
 - Revenues from **other CIS countries and Romania** market at ₹1.8 billion. Year-on-year growth of 26% largely driven by new products and volume traction.
 - Revenues from **Rest of World (RoW)** territories at ₹2.5 billion. Year-on-year growth of 12%, primarily driven by new products coupled with volume traction partly offset by price erosions in some of the key molecules.
- Revenues from **India** at ₹7.6 billion. Year-on-year growth of 13%, driven by new products, improved realizations in base business and volume traction. Sequential growth is 2% due to improved realizations and launch of new products.
- Revenues from **Europe** at ₹3.1 billion. Year-on-year growth of 52%, primarily on account of new products and volume traction in base business partly offset by lower realizations as few key molecules entered tenders. Sequential growth is 12% due to improvement in the sales of base business.

Pharmaceutical Services and Active Ingredients (PSAI)

- Revenues from **PSAI** at ₹6.9 billion. Year-on-year growth of 16% largely driven by increase in volumes of API business. There is a sequential decline of 3% due to lower volumes pick up compared to Q2.

Proprietary Products Segment (PP)

- Revenues from PP at ₹0.2 billion, as against ₹0.7 billion in Q3 FY 19 and ₹7.4 billion in Q2 FY 20, as we had out-licensed our commercialized derma products in Q4 FY 19 and commercialized neuro products in Q2 FY 20.

Income Statement Highlights:

- Gross profit margin at 54.1% vs. Q3 FY 19 margin of 53.9% and Q2 FY 20 margin of 57.5%
 - Gross profit margin for GG and PSAI business segments are at 58.2% and 30.0% respectively.
 - Year on year gross profit margins marginally improved on account of new products contribution with better margins and manufacturing leverage offset by higher price erosion in some of the key molecules in the US, Europe and RoW markets.
 - Sequentially there is a decline in margin as during the last quarter we recognized revenue from the out-licencing of PP Neuro products. On a like to like basis, the margins improved by ~260 bps due to manufacturing leverage and business mix.
- SG&A expenses at ₹12.7 billion, an increase of 5% on a year-on-year basis and decline of 4% sequentially. SG&A as % to sales improved by 240 bps on a year-on-year basis and on a like-to-like basis leverage improved sequentially as well.
- In December, 2019 there has been a generic launch and an authorized generic launch for the product Nuvaring®, which has led to a considerable erosion in the value of this product for us, and accordingly we have taken an impairment charge of ₹11.1 billion (\$ 156.5 mn). In addition to this, considering the current market dynamics, we have taken an impairment charge of ₹2.1 billion on the intangibles pertaining to other products. In total, we have taken an impairment of ₹13.2 billion on the intangible assets for this quarter. In Q2 FY 20, we had an impairment charge of ₹3.6 billion.
- R&D expenses at ₹3.9 billion. As % to Revenues- Q3 FY20: 9.0% | Q2 FY 20: 7.6% | Q3 FY19: 9.5%. Focus continues on building healthy pipeline of products across our markets.
- Other operating income at ₹228 million compared to ₹681 million in Q3 FY19. Previous year includes ₹423 million on account of sale of API business manufacturing unit located at Jeedimetla, Hyderabad.
- Net Finance income at ₹419 million compared to net finance expense of ₹13 million in Q3 FY19. The increase is primarily on account of foreign exchange gain in current quarter compared to loss in Q3 FY19.
- Loss before Tax at ₹5.3 billion, loss is primarily on account of impairment of intangible assets. Excluding impairment, profit before tax is at ₹7.9 billion.
- The net tax for the quarter is at ₹0.42 billion.
- Diluted loss per share is at ₹34.4
- Capital expenditure is at ₹1.2 billion.

Earnings Call Details (06:30 pm IST, 08:00 am EST, January 27, 2020)

The Company will host an earnings call to discuss the performance and answer any questions from participants.

Audio conference Participants can dial-in on the numbers below:

Universal Access Number: **+91 22 6280 1219**
Secondary number: **+91 22 7115 8120**

Local Access number: **+91 70456 71221**
(Available all over India)

International Toll Free Number	USA	1 866 746 2133
	UK	0 808 101 1573
	Singapore	800 101 2045
	Hong Kong	800 964 448

Playback of call: **+91 22 7194 5757, +91 22 6663 5757**
Conference ID: **58113**

Transcript of the event will be available at www.drreddys.com. Playback will be available for a few days.

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About Dr. Reddy's: Dr. Reddy's Laboratories Ltd. (BSE: 500124, NSE: DRREDDY, NYSE: RDY) is an integrated pharmaceutical company, committed to providing affordable and innovative medicines for healthier lives. Through its three businesses - Pharmaceutical Services & Active Ingredients, Global Generics and Proprietary Products – Dr. Reddy's offers a portfolio of products and services including APIs, custom pharmaceutical services, generics, biosimilars and differentiated formulations. Our major therapeutic areas of focus are gastrointestinal, cardiovascular, diabetology, oncology, pain management and dermatology. Dr. Reddy's operates in markets across the globe. Our major markets include – USA, India, Russia & CIS countries, and Europe. For more information, log on to: www.drreddys.com
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The company assumes no obligation to update any information contained herein.