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Dr. Reddy's Q2 and H1 FY17 Financial Results

<p>Q2 Revenues at ₹35.9 Bn [QoQ growth: 11%]</p> <p>Q2 EBITDA at ₹6.4 Bn [17.9% of Revenues]</p>	<p>H1 Revenues at ₹68.2 Bn [YoY decline: 12%]</p> <p>H1 EBITDA at ₹10.4 Bn [15.2% of Revenues]</p>
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Hyderabad, India, October 25, 2016: Dr. Reddy's Laboratories Ltd. (BSE: 500124 | NSE: DRREDDY | NYSE: RDY) today announced its consolidated financial results for the second quarter and half year ended September 30, 2016 under International Financial Reporting Standards (IFRS).

Q2 FY17: Key Highlights

- Revenues at ₹35.9 billion: QoQ growth: 11%
 - YoY decline: 10%
- Gross Profit Margin at 56.0%. Lower by ~530 bps versus the same quarter last year
- Research & Development (R&D) spend at ₹5.2 billion. [14.5% of Revenues]
- Selling, general & administrative (SG&A) expenses at ₹11.8 billion [YoY increase: 6%]
 - Includes NPPA provision of ₹344 million, explained in details in the note
- EBITDA at ₹6.4 billion [17.9% of Revenues]
- Profit after tax at ₹2.9 billion [8.2% of Revenues]

H1 FY17: Key Highlights

- Revenues at ₹68.2 billion
 - YoY decline: 12%
- Gross Profit Margin at 56.1%. Lower by ~510 bps versus H1FY 16
- Research & Development (R&D) spend at ₹10.0 billion. [14.7% of Revenues]
- Selling, general & administrative (SG&A) expenses at ₹24.1 billion [YoY increase: 9%]
- EBITDA at ₹10.4 billion [15.2% of Revenues]
- Profit after tax at ₹4.2 billion [6.2% of Revenues]

Commenting on the results, Co-chairman and CEO, G V Prasad said *"All our major businesses have shown sequential improvement over the previous quarter with revenues growing by 11% and EBITDA by 61%. We have made considerable progress in our remediation efforts and continue to work on addressing the concerns of the regulators. Looking ahead we will continue to focus on launching new products in our generics business, improving productivity and strengthening our quality management systems."*

Dr. Reddy's Laboratories Limited and Subsidiaries
Consolidated Income Statement

Particulars	Q2 FY 17			Q2 FY 16			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Revenues	539	35,857	100.0	599	39,889	100.0	(10)
Cost of revenues	237	15,760	44.0	232	15,421	38.7	2
Gross profit	302	20,097	56.0	368	24,468	61.3	(18)
Operating Expenses							
Selling, general & administrative expenses	177	11,774	32.8	166	11,058	27.7	6
Research and development expenses	78	5,214	14.5	67	4,473	11.2	17
Other operating expense / (income)	(4)	(277)	(0.8)	(5)	(320)	(0.8)	(13)
Results from operating activities	51	3,386	9.4	139	9,257	23.2	(63)
Finance expense / (income), net	(5)	(365)	(1.0)	3	216	0.5	(269)
Share of (profit) of equity accounted investees, net of income tax	(1)	(84)	(0.2)	(1)	(57)	(0.1)	49
Profit before income tax	58	3,835	10.7	137	9,098	22.8	(58)
Income tax expense	13	885	2.5	28	1,880	4.7	(53)
Profit for the period	44	2,950	8.2	108	7,218	18.1	(59)
Diluted EPS	0.27	17.76		0.63	42.20		(58)

EBITDA Computation

Particulars	Q2 FY 17		Q2 FY 16	
	(\$)	(Rs.)	(\$)	(Rs.)
Profit before income tax	58	3,835	137	9,098
Interest (income) / expense net*	(5)	(329)	(3)	(172)
Depreciation	28	1,897	24	1,606
Amortization	14	950	13	860
Impairment	1	67	-	-
EBITDA	96	6,420	171	11,392
EBITDA (% to sales)		17.9		28.6

* - Includes income from Investments

Key Balance Sheet Items

Particulars	As on 30 th Sep 16		As on 30 th June 16	
	(\$)	(Rs.)	(\$)	(Rs.)
Cash and cash equivalents and Other current Investments	321	21,379	384	25,578
Trade receivables	555	36,939	533	35,499
Inventories	428	28,516	419	27,922
Property, plant and equipment	842	56,052	825	54,951
Goodwill and Other Intangible assets	762	50,766	425	28,284
Loans and borrowings (current & non-current)	908	60,480	565	37,632
Trade payables	184	12,281	191	12,723
Equity	1,731	1,15,264	1,714	1,14,112

Revenue Mix by Segment [Year on year]

Particulars	Q2 FY 17			Q2 FY 16			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Global Generics	435	28,995	81	492	32,768	82	-12
North America		16,134			18,563		-13
Europe*		1,776			2,124		-16
India		6,251			5,464		14
Emerging Markets#		4,834			6,617		-27
PSAI	87	5,784	16	89	5,918	15	-2
North America		1,135			692		64
Europe		2,095			2,426		-14
India		575			724		-21
Rest of World		1,979			2,076		-5
Proprietary Products & Others	16	1,078	3	18	1,203	3	-10
Total	539	35,857	100	599	39,889	100	-10

Revenue Mix by Segment [Sequential]

Particulars	Q2 FY 17			Q1 FY 17			Growth %
	(\$)	(Rs.)	%	(\$)	(Rs.)	%	
Global Generics	435	28,995	81	400	26,638	82	9%
North America		16,134			15,523		4%
Europe*		1,776			1,615		10%
India		6,251			5,223		20%
Emerging Markets#		4,834			4,277		13%
PSAI	87	5,784	16	70	4,692	15	23%
North America		1,135			643		77%
Europe		2,095			1,947		8%
India		575			372		55%
Rest of World		1,979			1,730		14%
Proprietary Products & Others	16	1,078	3	15	1,015	3	6%
Total	539	35,857	100	486	32,345	100	11%

* Europe primarily includes Germany, UK and out licensing sales business

Emerging Markets refers to Russia, other CIS countries, Romania and Rest of the World markets including Venezuela

Segmental Analysis

Global Generics (GG)

Revenues from **GG** segment at ₹29.0 billion, year-on-year decline of 12%; decline primarily on account of lower contribution from North America and loss of sales from Venezuela. However, all the businesses have grown sequentially.

- Revenues from **North America** at ₹16.1 billion. Year-on-year decline of 13% is primarily on account of increased competition in valgancyclovir and injectable franchise, coupled with pricing pressure and moderation in volumes off-take.

During the quarter we launched 4 new products i.e. omeprazole sodium bi-carbonate, nitroglycerin SLT, paricalcitol injection and bupropion SR.

As of 30th September 2016, cumulatively 85 generic filings are pending for approval with the USFDA (83 ANDAs and 2 NDAs under 505(b)(2) route). Of these 83 ANDAs, 56 are Para IVs out of which we believe 19 have 'First to File' status. Further, these 83 ANDAs include 7 ANDAs, acquired from Teva, of which 6 are Para IVs.

- Revenues from **Emerging Markets** at ₹4.8 billion, year-on-year decline of 27%. [Ex-Venezuela: decline of 9%]
 - Revenues from **Russia** at ₹2.7 billion, year-on-year decline of 8%. In constant currency it declined 5%. Normalizing for the base effect, the year-on-year H1 growth is 7%.
 - Revenues from **other CIS countries and Romania** market at ₹0.9 billion, year-on-year decline of 11%.
 - Revenues from **Rest of World (RoW)** territories at ₹1.3 billion, year-on-year decline of 53% primarily on account of no sales in Venezuela.
- Revenues from **India** at ₹6.3 billion, year-on-year growth: 14%.
- Revenues from **Europe** at ₹1.8 billion, year-on-year decline: 16%.

Pharmaceutical Services and Active Ingredients (PSAI)

- Revenues from **PSAI** at ₹5.8 billion, year-on-year decline of 2%. On a sequential basis revenues registered a growth of 23% aided by improved order flow and supply situations
- During the quarter, 15 DMFs were filed globally of which 3 were in the US. The cumulative number of DMF filings as of 30th September, 2016 was 797.

Proprietary Products (PP)

Zembrace™ Sym Touch™ (Suma 3 mg) injection and Sernivo™ (betamethasone dipropionate) Spray, 0.05% are gradually gaining traction.

Income Statement Highlights:

- Gross profit margin at 56.0% and declined by ~530 bps over that of previous year, primarily on account of lower sales due to increased competitive intensity in some of our key molecules in the US. Gross profit margin for GG and PSAI business segments are at 62.3% and 22.0% respectively.

- SG&A expenses at ₹11.8 billion, year-on-year increase of 6%.

Given the Bombay High Court's dismissal of the writ petition filed by the IPA (Indian Pharmaceutical Alliance) regarding price controls by the NPPA (National Pharmaceutical Pricing Authority), the Company has accrued a potential liability of ₹344 million during the quarter.

The net increase, adjusted for the above NPPA provision, is largely due to annual increments, additional manpower deployment in the past 12 months and other sales and marketing spend for events specific to this quarter.

The sequential decline, adjusted for the above NPPA provision, is primarily on account of the reduced (a) remediation related costs and (b) launch spends by PP in the first quarter.

- Research & development expenses at ₹5.2 billion. As a % to Revenues- Q2 FY 17:14.5% | Q1 FY 17: 14.8% | Q2 FY 16: 11.2%]. Current quarter also includes some spend towards the IPR&D assets in-licensed from Xenoport and Eisai. Continued focus on building complex generics, biosimilars and differentiated products pipeline.
- Net Finance income at ₹365 million compared to the net finance expense of ₹216 million in Q2FY16. The incremental benefit of ₹581 million is on account of:
 - Net foreign exchange gain of ₹37 million in the current quarter vs net foreign exchange loss of ₹388 million in the previous year
 - Increase in profit on sales of investments by ₹276 million.
 - Net increase in interest expense of ₹118 million.
- Profit after Tax at ₹2.9 billion
- Diluted earnings per share is at ₹17.8
- Capital expenditure is at ₹3.1 billion.

Earnings Call Details (06:30 pm IST, 09:00 am EDT, October 25, 2016)

The Company will host an earnings call to discuss the performance and answer any questions from participants. This call will be accessible through an audio dial-in and a web-cast.

Audio conference Participants can dial-in on the numbers below

Primary number: **91 22 3960 0616**

Secondary number: **91 22 6746 5826**

International Toll Free Number **USA** **18667462133**

UK **08081011573**

Singapore **8001012045**

Hong Kong **800964448**

Playback of call: **91 22 3065 2322, 91 22 6181 3322**

Conference ID: **375#**

Web-cast More details will be provided through our website, www.drreddys.com

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 gastro-intestinal, cardiovascular, diabetology, oncology, pain management and dermatology. Dr. Reddy's operates in markets across the globe. Our major markets include – USA, India, Russia and other CIS countries. For more information, log on to: www.drreddys.com
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The company assumes no obligation to update any information contained herein.