

DR. REDDY'S LABORATORIES LTD.

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Dr. Reddy's Q4 and FY17 Financial Results

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| <p>Q4 Revenues at ₹35.5 Bn [QoQ decline: 4%]</p> <p>Q4 EBITDA at ₹6.3 Bn [17.7% of Revenues]</p> | <p>FY 17 Revenues at ₹140.8 Bn [YoY decline: 9%]</p> <p>FY 17 EBITDA at ₹25.5 Bn [18.1% of Revenues]</p> |
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Hyderabad, India, May 12, 2017: Dr. Reddy's Laboratories Ltd. (BSE: 500124 | NSE: DRREDDY | NYSE: RDY) today announced its consolidated financial results for the fourth quarter and full year ended March 31, 2017 under International Financial Reporting Standards (IFRS).

FY17: Key Highlights

- Revenues at ₹140.8 billion: YoY decline: 9%
- Gross Profit Margin at 55.6%
- Research & Development (R&D) spend at ₹19.6 billion [13.9% of Revenues]
- Selling, general & administrative (SG&A) expenses at ₹46.4 billion [YoY increase: 1%]
- EBITDA at ₹25.5 billion [18.1% of Revenues]
- Profit after tax at ₹12.0 billion [8.5% of Revenues]

Q4 FY17: Key Highlights

- Revenues at ₹35.5 billion: QoQ decline: 4%; YoY decline: 5%
- Gross Profit Margin at 51.2%
- R&D spend at ₹4.6 billion [12.9% of Revenues]
- SG&A expenses at ₹11.0 billion [YoY decline: 6%]
- EBITDA at ₹6.3 billion [17.7% of Revenues]
- Profit after tax at ₹3.1 billion [8.8% of Revenues]

Commenting on the results, Co-chairman and CEO, G V Prasad said *"FY17 has been a challenging year due to lack of new product approvals for the US market. However, our other geographies delivered good performances, with several new product launches. We are also seeing expanded global access to our Biosimilars, as a result of successful registrations in Emerging Markets. We will continue our focus on rationalisation of cost structures and building a sustainable quality culture across the organisation"*.

Dr. Reddy's Laboratories Limited and Subsidiaries
Consolidated Income Statement for Q4 FY 17

| Particulars | Q4 FY17 | | | Q4 FY16 | | | Growth % |
|--|-------------|---------------|--------------|-------------|---------------|--------------|-------------|
| | (\$) | (Rs.) | % | (\$) | (Rs.) | % | |
| Revenues | 548 | 35,542 | 100.0 | 579 | 37,562 | 100.0 | (5) |
| Cost of revenues | 268 | 17,360 | 48.8 | 251 | 16,286 | 43.4 | 7 |
| Gross profit | 280 | 18,182 | 51.2 | 328 | 21,276 | 56.6 | (15) |
| Operating Expenses | | | | | | | |
| Selling, general & administrative expenses | 169 | 10,973 | 30.9 | 179 | 11,632 | 31.0 | (6) |
| Research and development expenses | 71 | 4,579 | 12.9 | 75 | 4,879 | 13.0 | (6) |
| Other operating (income) / expense | (8) | (505) | (1.4) | (5) | (307) | (0.8) | 64 |
| Results from operating activities | 48 | 3,135 | 8.8 | 78 | 5,072 | 13.5 | (38) |
| Net finance expense | 1 | 48 | 0.1 | 41 | 2,646 | 7.0 | (98) |
| Share of (profit) / loss of equity accounted investees | (2) | (102) | (0.3) | (1) | (59) | (0.2) | 72 |
| Profit before income tax | 49 | 3,189 | 9.0 | 38 | 2,485 | 6.6 | 28 |
| Income tax expense | 1 | 64 | 0.2 | 27 | 1,739 | 4.6 | (96) |
| Profit for the period | 48 | 3,125 | 8.8 | 11 | 746 | 2.0 | 319 |
| Diluted EPS | 0.29 | 18.83 | | 0.07 | 4.36 | | 332 |

EBITDA Computation

| Particulars | Q4 FY 17 | | Q4 FY 16 | |
|---------------------------------|-----------|--------------|-----------|--------------|
| | \$ | Rs. | \$ | Rs. |
| Profit before income tax | 49 | 3,189 | 38 | 2,485 |
| Interest income, net* | (1) | (90) | (11) | (713) |
| Depreciation# | 36 | 2,338 | 32 | 2,062 |
| Amortization | 13 | 866 | 15 | 970 |
| EBITDA | 97 | 6,303 | 74 | 4,804 |
| EBITDA% to Revenues | | 17.7% | | 12.8% |

* Includes income from Investments; # Includes Impairment charge

Key Balance Sheet Items

| Particulars | As on 31 st Mar 17 | | As on 31 st Dec 16 | |
|---|-------------------------------|----------|-------------------------------|---------|
| | (\$) | (Rs.) | (\$) | (Rs.) |
| Cash and cash equivalents and Other current Investments | 280 | 18,136 | 311 | 20,145 |
| Trade Receivables | 587 | 38,065 | 634 | 41,119 |
| Inventories | 440 | 28,529 | 463 | 30,052 |
| Property, plant and equipment | 881 | 57,160 | 882 | 57,209 |
| Goodwill and Other Intangible assets | 751 | 48,677 | 771 | 49,977 |
| Loans and borrowings (current & non-current) | 758 | 49,185 | 894 | 57,999 |
| Trade & other payables | 207 | 13,417 | 205 | 13,308 |
| Equity | 1,913 | 1,24,044 | 1,866 | 121,040 |

Dr. Reddy's Laboratories Limited and Subsidiaries
Consolidated Income Statement for FY 17

| Particulars | FY17 | | | FY16 | | | Growth % |
|--|--------------|-----------------|--------------|--------------|-----------------|--------------|-------------|
| | (\$) | (Rs.) | % | (\$) | (Rs.) | % | |
| Revenues | 2,171 | 1,40,809 | 100.0 | 2,386 | 1,54,708 | 100.0 | (9) |
| Cost of revenues | 963 | 62,453 | 44.4 | 963 | 62,427 | 40.4 | 0 |
| Gross profit | 1,208 | 78,356 | 55.6 | 1,423 | 92,281 | 59.6 | (15) |
| Operating Expenses | | | | | | | |
| Selling, general & administrative expenses | 715 | 46,372 | 32.9 | 705 | 45,702 | 29.5 | 1 |
| Research and development expenses | 301 | 19,551 | 13.9 | 275 | 17,834 | 11.5 | 10 |
| Other operating (income) / expense | (16) | (1,065) | (0.8) | (13) | (874) | (0.6) | 22 |
| Results from operating activities | 208 | 13,498 | 9.6 | 457 | 29,619 | 19.1 | (54) |
| Net finance (income) / expense | (12) | (806) | (0.6) | 42 | 2,708 | 1.8 | (130) |
| Share of (profit) / loss of equity accounted investees | (5) | (349) | (0.2) | (4) | (229) | (0.1) | 52 |
| Profit / (loss) before income tax | 226 | 14,653 | 10.4 | 418 | 27,140 | 17.5 | (46) |
| Income tax (benefit) / expense | 40 | 2,614 | 1.9 | 110 | 7,127 | 4.6 | (63) |
| Profit / (loss) for the period | 186 | 12,039 | 8.5 | 309 | 20,013 | 12.9 | (40) |
| Diluted EPS | 1.11 | 72.09 | | 1.80 | 116.98 | | (38) |

EBITDA Computation

| Particulars | FY 17 | | FY 16 | |
|---------------------------------|------------|---------------|------------|---------------|
| | \$ | Rs. | \$ | Rs. |
| Profit before income tax | 226 | 14,653 | 418 | 27,140 |
| Interest income, net* | (14) | (880) | (22) | (1,425) |
| Depreciation# | 122 | 7,931 | 106 | 6,874 |
| Amortization# | 59 | 3,791 | 56 | 3,663 |
| EBITDA | 393 | 25,495 | 559 | 36,252 |
| EBITDA% to Revenues | | 18.1% | | 23.4% |

* Includes income from Investments; # Includes Impairment charge

Key Balance Sheet Items

| Particulars | As on 31 st Mar 17 | | As on 31 st Mar 16 | |
|---|-------------------------------|----------|-------------------------------|----------|
| | (\$) | (Rs.) | (\$) | (Rs.) |
| Cash and cash equivalents and Other current Investments | 280 | 18,136 | 616 | 39,955 |
| Trade Receivables | 587 | 38,065 | 637 | 41,306 |
| Inventories | 440 | 28,529 | 394 | 25,578 |
| Property, plant and equipment | 881 | 57,160 | 832 | 53,961 |
| Goodwill and Other Intangible assets | 751 | 48,677 | 380 | 24,644 |
| Loans and borrowings (current & non-current) | 758 | 49,185 | 517 | 33,513 |
| Trade & other payables | 207 | 13,417 | 190 | 12,300 |
| Equity | 1,913 | 1,24,044 | 1,979 | 1,28,336 |

Revenue Mix by Segment [FY 17 vs FY 16]

| Particulars | FY 17 | | | FY 16 | | | Growth % |
|--|--------------|-----------------|------------|--------------|-----------------|------------|-------------|
| | (\$) | (Rs.) | % | (\$) | (Rs.) | % | |
| Global Generics | 1,780 | 1,15,409 | 82 | 1,975 | 1,28,062 | 83 | (10) |
| North America | | 63,601 | | | 75,445 | | (16) |
| Europe* | | 7,606 | | | 7,732 | | (2) |
| India | | 23,131 | | | 21,293 | | 9 |
| Emerging Markets# | | 21,071 | | | 23,592 | | (11) |
| PSAI | 328 | 21,277 | 15 | 345 | 22,379 | 14 | (5) |
| North America | | 3,569 | | | 3,052 | | 17 |
| Europe | | 8,410 | | | 9,313 | | (10) |
| India | | 1,750 | | | 2,618 | | (33) |
| Rest of World | | 7,548 | | | 7,396 | | 2 |
| Proprietary Products & Others | 64 | 4,123 | 3 | 66 | 4,267 | 3 | (3) |
| Total | 2,171 | 1,40,809 | 100 | 2,386 | 1,54,708 | 100 | (9) |

* 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

Revenue Mix by Segment [Q4 FY 17 vs Q3 FY 17]

| Particulars | Q4 FY 17 | | | Q3 FY 17 | | | Growth % |
|--|------------|---------------|------------|------------|---------------|------------|------------|
| | (\$) | (Rs.) | % | (\$) | (Rs.) | % | |
| Global Generics | 449 | 29,138 | 82 | 472 | 30,638 | 83 | (5) |
| North America | | 15,349 | | | 16,595 | | (8) |
| Europe* | | 2,066 | | | 2,148 | | (4) |
| India | | 5,711 | | | 5,947 | | (4) |
| Emerging Markets# | | 6,012 | | | 5,948 | | 1 |
| PSAI | 83 | 5,401 | 15 | 83 | 5,400 | 14 | - |
| North America | | 532 | | | 1,259 | | (58) |
| Europe | | 2,539 | | | 1,828 | | 39 |
| India | | 395 | | | 409 | | (3) |
| Rest of World | | 1,935 | | | 1,904 | | 2 |
| Proprietary Products & Others | 15 | 1,003 | 3 | 16 | 1,027 | 3 | (2) |
| Total | 548 | 35,542 | 100 | 572 | 37,065 | 100 | (4) |

Revenue Mix by Segment [Q4 FY 17 vs Q4 FY 16]

| Particulars | Q4 FY17 | | | Q4 FY16 | | | Growth % |
|--|------------|---------------|------------|------------|---------------|------------|------------|
| | (\$) | (Rs.) | % | (\$) | (Rs.) | % | |
| Global Generics | 449 | 29,138 | 82 | 475 | 30,774 | 82 | (5) |
| North America | | 15,349 | | | 18,950 | | (19) |
| Europe* | | 2,066 | | | 1,759 | | 17 |
| India | | 5,711 | | | 5,267 | | 8 |
| Emerging Markets# | | 6,012 | | | 4,798 | | 25 |
| PSAI | 83 | 5,401 | 15 | 89 | 5,766 | 15 | (6) |
| North America | | 532 | | | 742 | | (28) |
| Europe | | 2,539 | | | 2,586 | | (2) |
| India | | 395 | | | 603 | | (35) |
| Rest of World | | 1,935 | | | 1,835 | | 5 |
| Proprietary Products & Others | 15 | 1,003 | 3 | 16 | 1,022 | 3 | (2) |
| Total | 548 | 35,542 | 100 | 579 | 37,562 | 100 | (5) |

* 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 for FY 17 at ₹115.4 billion, year-on-year decline of 10%; primarily on account of lower contribution from North America and Emerging Markets. Revenues for fourth quarter declined by 5% on a year-on-year basis.

- Revenues from **North America** for FY 17 at ₹63.6 billion, year-on-year decline of 16%. This is primarily on account of increased competition in our key products namely valganciclovir, decitabine, azacitidine etc. coupled with discontinuation of the McNeil business. Revenues for fourth quarter at ₹15.3 billion.

During the year, we filed 26 ANDAs with USFDA. Of these 13 ANDAs filed in the fourth quarter.

As of 31st March, 2017, 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, 62 are Para IVs out of which we believe 21 have 'First to File' status.

- Revenues from **Emerging Markets** for FY 17 at ₹21.1 billion, year-on-year decline of 11%, primarily on account of constrained operations in Venezuela. Revenues for fourth quarter at ₹6 billion. Gradual sequential improvement through the year is backed by improving macro economic environment across geographies coupled with focused foray into the institutional business in some countries.
 - Revenues from **Russia** for FY 17 at ₹11.5 billion, year-on-year growth of 9%. In constant currency it has grown by 8%. Revenues the fourth quarter at ₹3.4 billion and grew 26% year-on-year in constant currency.
 - Revenues from **other CIS countries and Romania** for FY 17 at ₹3.7 billion, year-on-year growth of 4%.
 - Revenues from **Rest of World (RoW)** territories for FY 17 at ₹5.8 billion, year-on-year decline of 38%. This is primarily on account of constrained operations in Venezuela.
- Revenues from **India** at ₹23.1 billion, year-on-year growth of 9%. Revenues for fourth quarter at ₹5.7 billion and grew 8% year-on-year.
- Revenues from **Europe** at ₹7.6 billion, year-on-year decline of 2%, impacted due to weak GBP.

Pharmaceutical Services and Active Ingredients (PSAI)

- Revenues from **PSAI** at ₹21.3 billion, year-on-year decline of 5%. Revenues for fourth quarter at ₹5.4 billion declined by 6%.
- During the year, 82 DMFs were filed globally of which 9 were in the US. Cumulative number of DMF filings as of 31st March, 2017 was 754.

Proprietary Products (PP)

Zembrace™Sym Touch™ (Suma 3 mg) injection and Sernivo™ (betamethasone dipropionate) Spray, 0.05% are gradually gaining traction, with an improvement in the sales volumes.

Income Statement Highlights:

- Gross profit margin for FY 17 is at 55.6% and declined ~400 bps over that of previous year. This decline is primarily on account of high price erosion in our North America Generics Business, impairment charge taken at our Bristol plant, provision towards new product inventory and higher manufacturing overheads. Gross profit margin for GG and PSAI business segments are at 61.6% and 21.0% respectively. Gross profit margin for the fourth quarter at 51.2%.
- SG&A expenses for FY 17 at ₹46.4 billion. Marginal increase of 1%. SG&A expenses for fourth quarter at ₹11 billion.
- R&D expenses for FY 17 at ₹19.6 billion, 13.9% of Revenues, against 11.5% in FY 16. R&D expense for the fourth quarter at ₹4.6 billion, 12.9% of Revenues. Focus continues to build a sustainable revenue stream through a mix of simple and complex generics, biosimilars and differentiated products pipeline.
- Net finance income for FY 17 is ₹806 million compared to net finance expense of ₹2,708 million in FY 16. This is on account of:
 - Net foreign exchange loss of ₹74 million in the current year vs net foreign exchange loss of ₹4,133 million in the previous year primarily related to the Venezuela adjustment.
 - Increase in profit on sales of investments by ₹105 million; offset by
 - Net decrease in interest income of ₹650 million.
- Profit after Tax for FY 17 at ₹12.0 billion. PAT for fourth quarter at ₹3.1 billion.
- Diluted earnings per share for FY 17 is at ₹72.1 and ₹18.8 for fourth quarter.
- Capital expenditure for FY 17 is at ₹11.7 billion and ₹2.4 billion for fourth quarter.

The Board has recommended payment of a dividend of Rs. 20 per equity share of face value Rs 5/- each (400% of face value) for the year ended March 31, 2017 subject to approval of members

Earnings Call Details (06:00 pm IST, 08:30 am EDT, May 12, 2017)

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 |
| 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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Disclaimer: This press release may include statements of future expectations and other forward-looking statements that are based on the management's current views and assumptions and involve known or unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. In addition to statements which are forward-looking by reason of context, the words "may", "will", "should", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" and similar expressions identify forward-looking statements. Actual results, performance or events may differ materially from those in such statements due to without limitation, (i) general economic conditions such as performance of financial markets, credit defaults, currency exchange rates, interest rates, persistency levels and frequency / severity of insured loss events (ii) mortality and morbidity levels and trends, (iii) changing levels of competition and general competitive factors, (iv) changes in laws and regulations and in the policies of central banks and/or governments, (v) the impact of acquisitions or reorganisation, including related integration issues.

The company assumes no obligation to update any information contained herein.