

DR REDDYS LABORATORIES LTD

Form 6-K

October 21, 2003

**Table of Contents**

---

**FORM 6-K**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Report of Foreign Private Issuer**

**Pursuant to Rule 13a-16 or 15d-16**  
**of the Securities Exchange Act of 1934**

**For the Quarter Ended June 30, 2003**

**Commission File Number 1-15182**

**DR. REDDY S LABORATORIES LIMITED**

(Name of Registrant)

**7-1-27, Ameerpet**  
**Hyderabad, Andhra Pradesh 500 016, India**  
**+91-40-23731946**

---

(Address of Principal Executive Offices)

Indicate by check mark whether registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  [X]

Form 40-F [ ]

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): \_\_\_\_\_

**Note:** Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): \_\_\_\_\_

**Note:** Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes [ ]

No [X]

If Yes is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b):

Not applicable.



**TABLE OF CONTENTS**

QUARTERLY REPORT

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND  
COMPREHENSIVE INCOME

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OPERATING AND FINANCIAL REVIEW

SIGNATURES

---

**Table of Contents**

**QUARTERLY REPORT  
Quarter Ended June 30, 2003**

**Currency of Presentation and Certain Defined Terms**

In this Quarterly Report, references to \$ or dollars or U.S.\$ or U.S. dollars are to the legal currency of the United States and references to ₹ 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 a particular fiscal year are to our fiscal year ended March 31 of such year. References to the FASB means the Financial Accounting Standards Board.

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 trademarks in our name and some are pending before the respective trademark 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 30, 2003 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.46.40 per U.S.\$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.

**Table of Contents****DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

	As of March 31,	As of June 30,	
	2003	2003	2003
			Convenience translation into U.S.\$
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	Rs. 7,273,398	Rs. 7,577,752	U.S.\$ 163,314
Accounts receivable, net of allowances	3,620,020	4,162,980	89,719
Inventories	2,781,384	2,881,643	62,104
Deferred income taxes	166,510	122,888	2,648
Other current assets	1,285,571	1,285,241	27,699
	15,126,883	16,030,504	345,485
Property, plant and equipment, net	4,830,480	5,105,148	110,025
Investment securities	8,715	7,972	172
Intangible assets	2,867,567	2,809,655	60,553
Other assets	258,022	283,251	6,105
	Rs. 23,091,667	Rs. 24,236,530	U.S.\$ 522,339
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>Current liabilities:</b>			
Current portion of long-term debt	Rs. 143,801	Rs. 146,679	U.S.\$ 3,161
Trade accounts payable	1,685,382	2,013,418	43,393
Accrued expenses	769,895	827,261	17,829
Other current liabilities	504,334	496,816	10,707
	3,103,412	3,484,174	75,090
Long-term debt, excluding current portion	40,909	34,276	739
Deferred income taxes	700,274	648,908	13,985
Other liabilities	415,231	414,702	8,938
	Rs. 4,259,826	Rs. 4,582,060	U.S.\$ 98,751
<b>Stockholders equity:</b>			
Equity shares at Rs.5 par value; 100,000,000 shares authorized;			
Issued and outstanding; 76,515,948 shares as of March 31, 2003 and June 30, 2003, respectively	382,580	382,580	8,245
Additional paid-in capital	10,085,004	10,085,004	217,349
Equity-options outstanding	135,694	156,072	3,364
Retained earnings	8,187,117	8,978,705	193,507
Equity shares held by a controlled trust: 41,400 shares	(4,882)	(4,882)	(105)
Accumulated other comprehensive income	46,328	56,991	1,228
	18,831,841	19,654,470	423,588

Edgar Filing: DR REDDYS LABORATORIES LTD - Form 6-K

Total liabilities and stockholders' equity	<u>Rs. 23,091,667</u>	<u>Rs. 24,236,530</u>	<u>U.S.\$ 522,339</u>
--	-----------------------	-----------------------	-----------------------

See accompanying notes to the unaudited condensed consolidated financial statements.

**Table of Contents****DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except share data)

	2002	Three months ended June 30, 2003	2003  Convenience translation into U.S.\$
<b>Revenues:</b>			
Sales, net of allowances for sales returns (includes excise duties of Rs.205,370 and Rs.215,463 for the three months ended June 30, 2002 and 2003, respectively)	Rs. 4,532,810	Rs. 4,811,638	U.S.\$ 103,699
Cost of revenues	2,019,902	2,161,642	46,587
Gross profit	2,512,908	2,649,996	57,112
Operating expenses:			
Selling, general and administrative expenses	966,189	1,463,882	31,549
Research and development expenses	206,611	325,952	7,025
Amortization expenses	131,189	96,244	2,074
Foreign exchange gain	(5,215)	(78,191)	(1,685)
Total operating expenses	1,298,774	1,807,887	38,963
Operating income	1,214,134	842,109	18,149
Equity in loss of affiliates	(23,724)	(14,214)	(306)
Other income, net	98,624	140,895	3,037
Income before income taxes	1,289,034	968,790	20,879
Income taxes	(95,299)	(177,202)	(3,819)
Net income	Rs. 1,193,735	Rs. 791,588	U.S.\$ 17,060
Earnings per equity share:			
Basic and diluted	15.60	10.35	0.22
Weighted average number of equity shares used in computing earnings per equity share:			
Basic and diluted	76,515,948	76,515,948	76,515,948

See accompanying notes to the unaudited condensed consolidated financial statements.



**Table of Contents****DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY AND COMPREHENSIVE INCOME**  
(in thousands, except share data)

	Equity Shares			Comprehensive Income	Equity Shares held by a Controlled Trust	
	No. of shares	Amount	Additional Paid In Capital		No. of Shares	Amount
<b>Balance as of March 31, 2003</b>	76,515,948	Rs. 382,580	Rs. 10,085,004		41,400	Rs. (4,882)
Comprehensive income						
Net income				Rs. 791,588		
Translation adjustment				9,164		
Unrealized gain on investments, net of tax				1,499		
Comprehensive income				Rs. 802,251		
Application of SFAS 123						
<b>Balance as of June 30, 2003</b>	76,515,948	Rs. 382,580	Rs. 10,085,004		41,400	Rs. (4,882)
Convenience translation into U.S.\$		U.S.\$ 8,245	U.S.\$ 217,349			U.S.\$ (105)

[Additional columns below]

[Continued from above table, first column(s) repeated]

	Accumulated Other Comprehensive Income	Equity-options outstanding	Retained Earnings	Total Stockholders Equity
<b>Balance as of March 31, 2003</b>	Rs. 46,328	Rs. 135,694	Rs. 8,187,117	Rs. 18,831,841
Comprehensive income				
Net income			791,588	791,588
Translation adjustment	9,164			9,164
Unrealized gain on investments, net of tax	1,499			1,499
Comprehensive income				
Application of SFAS 123		20,378		20,378
<b>Balance as of June 30, 2003</b>	Rs. 56,991	Rs. 156,072	Rs. 8,978,705	Rs. 19,654,470
Convenience translation into U.S.\$	U.S.\$ 1,228	U.S.\$ 3,364	U.S.\$ 193,507	U.S.\$ 423,588

See accompanying notes to the unaudited condensed consolidated financial statements.

**Table of Contents****DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands, except share data)

	Three months ended June 30,		
	2002	2003	2003 Convenience translation into U.S.\$
Cash flows from operating activities:			
Net income	Rs. 1,193,735	Rs. 791,588	U.S.\$ 17,060
Adjustments to reconcile net income to net cash from operating activities:			
Deferred tax benefit	(47,024)	(7,744)	(167)
Gain on sale of investment securities	(1,776)	(1,391)	(30)
Depreciation and amortization	261,643	268,100	5,778
Loss / (profit) on sale of property, plant and equipment	(183)	4,943	107
Equity in loss of affiliates	23,724	14,214	306
Employee stock based compensation	18,522	20,378	439
Unrealized exchange gain	(16,405)	(142,492)	(3,071)
Changes in operating assets and liabilities:			
Accounts receivable	360,716	(581,916)	(12,541)
Inventories	(160,890)	(102,086)	(2,200)
Other assets	(101,138)	93,067	2,006
Trade accounts payable	384,434	389,038	8,384
Accrued expenses	(37,664)	58,490	1,261
Taxes payable	25,879		
Other liabilities	(58,116)	25,775	555
Net cash provided by operating activities	<u>1,845,457</u>	<u>829,964</u>	<u>17,887</u>
Cash flows from investing activities:			
Expenditures on property, plant and equipment, net of proceeds from sale	(315,378)	(449,143)	(9,680)
Purchase of investment securities, net of proceeds from sale	(3,229)	(8,032)	(173)
Expenditures on intangible assets	(16,327)	(22,594)	(487)
Cash paid for acquisition, net of cash acquired	(347,684)	(9,453)	(204)
Net cash used in investing activities	<u>(682,618)</u>	<u>(489,222)</u>	<u>(10,544)</u>
Cash flows from financing activities:			
Proceeds from/(repayments of) borrowing from banks, net	(9,910)	(34,328)	(740)
Repayment of long-term debt		(6,633)	(143)
Net cash used in financing activities	<u>(9,910)</u>	<u>(40,961)</u>	<u>(883)</u>
Effect of exchange rate changes on cash	<u>8,889</u>	<u>4,573</u>	<u>99</u>
Net increase in cash and cash equivalents during the period	1,161,818	304,354	6,559
Cash and cash equivalents at the beginning of the period	<u>5,109,374</u>	<u>7,273,398</u>	<u>156,754</u>

Edgar Filing: DR REDDYS LABORATORIES LTD - Form 6-K

Cash and cash equivalents at the end of the period	Rs. 6,271,192	Rs. 7,577,752	U.S.\$ 163,314
Supplemental disclosures:			
Cash paid for:			
Interest (net of interest capitalized)	Rs. 13,826	Rs. 2,688	U.S.\$ 58
Income taxes	100,739	67,664	1,458
Supplemental schedule of non-cash investing activities:			
Consideration loan notes issued on acquisition	128,108		

See accompanying notes to the unaudited condensed consolidated financial statements.

**Table of Contents****DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES****NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share data and where otherwise stated)****1. Basis of preparation of financial statements**

The accompanying unaudited interim condensed consolidated financial statements as of June 30, 2003, and for the three months ended June 30, 2002 and 2003, have been prepared on substantially the same basis as the audited financial statements for the year ended March 31, 2003, and include all adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the financial information set forth herein. The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

**2. Interim information**

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes contained in the Annual Report on Form 20-F for the year ended March 31, 2003. The results of the interim periods are not necessarily indicative of results to be expected for the full fiscal year.

**3. Convenience translation**

The accompanying unaudited interim consolidated financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, the financial statements as of and for the three months ended June 30, 2003 have been translated into United States dollars at the noon buying rate in New York City on June 30, 2003 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S.\$1 = Rs.46.40. 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.

**4. Stock based compensation**

The Company uses the Black-Scholes option pricing model to determine the fair value of each option grant. The Black-Scholes model includes assumptions regarding dividend yields, expected volatility, expected lives and risk free interest rates. These assumptions reflect management's best estimates, but these assumptions involve inherent market uncertainties based on market conditions generally outside of the control of the company. As a result, if other assumptions had been used in the current period, stock-based compensation expense could have been materially impacted. Furthermore, if management uses different assumptions in future periods, stock based compensation expense could be materially impacted in future years.

The fair value of each option is estimated on the date of grant using the Black-Scholes model with the following assumptions:

	Quarter ended June 30,	
	2002	2003
Dividend yield	0.4%	0.5%
Expected life	42-78 months	42-78 months
Risk free interest rates	5.8 - 6.8%	5.2 - 6.8%
Volatility	49.8 - 50.7%	49.8-50.7%

**Table of Contents**

**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(in thousands, except share data and where otherwise stated)**

**4. Stock based compensation (continued)**

At March 31, 2003, Dr. Reddy s Laboratories Limited (the Company or DRL ) had two stock-based employee compensation plans, which are described more fully in Note 9. Prior to April 1, 2003, the Company accounted for those plans under the recognition and measurement provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation cost was reflected in previously reported results, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. During the first quarter of fiscal 2004, the Company adopted the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock- Based Compensation*, for stock-based employee compensation. The Company has selected the retroactive method of adoption described in Statement No. 148 *Accounting for Stock Based Compensation Transition and Disclosure*. In accordance with the retroactive method of adoption, all prior periods presented have been modified to reflect the compensation cost that would have been recognized had the recognition provisions of Statement 123 been applied to all awards granted to employees after January 1, 1995. Consequently an amount of Rs.18,522 and Rs.20,378 has been recorded as total employee stock based compensation expense for the quarters ended June 30, 2002 and 2003, respectively.

**5. Business combinations**

*Dr. Reddy s Laboratories (EU) Limited ( DRL EU )* (formerly BMS Laboratories Limited)

On April 11, 2002, the Company acquired all of the issued and outstanding capital shares of DRL EU (formerly BMS Laboratories Limited) and its consolidated subsidiary, Dr. Reddy s Laboratories (UK) Limited ( DRL UK ) (formerly Meridian Healthcare Limited), for a total consideration of Rs.644,413 (U.K. pounds sterling 9.16 million). The purchase consideration consisted of:

Cash	Rs. 438,216
Loan notes	128,108
Direct acquisition costs	7,739
	574,063
Contingent consideration	70,350
	Rs. 644,413

At the date of acquisition, the Company recorded the cost of the acquisition as Rs.574,063, consisting of the cash paid, loan notes issued, and the direct acquisition costs. The agreement includes the payment of contingent consideration of up to Rs.70,350, which is held in an escrow account. This amount is subject to set-off for certain indemnity claims the Company may make with respect to legal and tax matters that may arise for periods prior to the acquisition. Therefore, at the time of the acquisition, contingent consideration was not included in the determination of the cost of the acquisition. The acquisition agreement provides that the contingent consideration is payable over a period of five years with final payment, if any, in 2007. As per the agreement, Rs.9,453 was released to sellers from escrow during the current quarter, which has been treated as goodwill.

**Table of Contents**

**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(in thousands, except share data and where otherwise stated)**

**5. Business combinations (continued)**

DRL EU and DRL UK are United Kingdom based pharmaceutical companies engaged in the manufacture and marketing of generic pharmaceuticals. As a result of the acquisition, DRL has gained entry into the United Kingdom generics market. The Company has accounted for the acquisition under the purchase method. Accordingly, the financial results for the period April 11, 2002 through June 30, 2003 have been included in the consolidated financial statements of the Company. The purchase cost of Rs.574,063 has been allocated as follows:

Current assets	
Cash	Rs. 98,271
Other current assets	269,477
Property, plant and equipment	109,811
Intangibles	
Goodwill	10,217
Trademarks	153,189
Customer-related intangibles	106,946
Non-compete arrangements	26,736
Other intangibles	6,859
Other assets	2,327
	<hr/>
Total assets	783,833
Liabilities assumed	(141,116)
	<hr/>
Deferred tax liability	(68,654)
	<hr/>
Purchase cost	Rs. 574,063
	<hr/> <hr/>

Customer related intangibles represent the fair value of the existing customer lists of the acquired companies. The estimated useful life of all the intangibles is 5 years other than operating leases which are amortized over 4 years.

*Pro forma information:* The table below reflects unaudited pro forma consolidated results of operations as if the above acquisitions had been made at the beginning of the period presented below.

	<b>Three months ended June 30, 2002</b>
	<b>(unaudited)</b>
Revenues	Rs. 4,544,097
Net income	1,191,841
Earnings per equity share:	
Basic and diluted	15.58
Weighted average number of equity shares used in computing earnings per equity share:	
Basic and diluted	76,515,948

The unaudited pro forma consolidated results of operations include adjustments to give effect to amortization of intangibles and certain other adjustments together with related income tax effects. The unaudited pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.





**Table of Contents**

**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(in thousands, except share data and where otherwise stated)

**6. Goodwill and intangible assets**

On April 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. Adoption of SFAS No. 142 did not result in reclassification of existing goodwill and intangible assets.

As required by SFAS No. 142, the Company identified its reporting units and assigned assets and liabilities, including goodwill to the reporting units on the date of adoption. Subsequently, the Company compared the fair value of the reporting unit to its carrying value including goodwill, to determine whether goodwill is impaired at the date of adoption. This transitional impairment evaluation did not indicate an impairment loss.

Subsequent to the adoption of SFAS No.142, the Company does not amortize goodwill but will instead test goodwill for impairment at least annually. The carrying value of the goodwill and other intangible assets on the date of adoption was Rs.1,473,605 and Rs.1,276,397 respectively.

Trademarks, marketing know-how, customer related intangibles and non-compete arrangements are amortized over the expected benefit period or the legal life, whichever is lower.

The following table presents the changes in goodwill during the three months ended June 30, 2003 and year ended March 31, 2003:

	<b>Year ending March 31, 2003</b>	<b>Three months ending June 30, 2003</b>
Balance at the beginning of the year	Rs. 1,473,605	Rs. 1,550,419
Acquired during the period	76,814	24,995
Amortised during the period		
Impairment losses recognized		
Balance at the end of the period	<b>Rs. 1,550,419</b>	<b>Rs. 1,575,414</b>

The following table presents acquired and amortized intangible assets as at June 30, 2003:

	<b>As at June 30, 2003</b>	
	<b>Gross carrying amount</b>	<b>Accumulated amortization</b>
Trademarks	Rs. 2,554,297	Rs. 1,254,869
Non-compete arrangements	109,198	87,012
Marketing know-how	80,000	80,000
Customer related intangibles	116,792	28,051
Others	7,792	1,963
	<b>Rs. 2,868,079</b>	<b>Rs. 1,451,895</b>

The aggregate amortization expense for the quarter ended June 30, 2002 and 2003 was Rs.131,189 and Rs.96,244, respectively.

Estimated amortization expense for the next five years with respect to such assets is as follows:



**Table of Contents**

**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(in thousands, except share data and where otherwise stated)

**6. Goodwill and intangible assets (continued)**

For the year ended March 31,	
2004	Rs. 384,976
2005	334,263
2006	289,539
2007	261,654
2008	241,759

The intangible assets as of June 30, 2003 have been allocated to the following segments:

	Formulations	Active Pharmaceutical ingredients	Generics	Total
Goodwill	Rs. 349,774	Rs. 997,025	Rs. 228,615	Rs. 1,575,414
Trademarks	1,146,909		152,519	1,299,428
Non-compete arrangements			22,186	22,186
Customer related intangibles			88,741	88,741
Others			5,829	5,829
	<u>Rs. 1,496,683</u>	<u>Rs. 997,025</u>	<u>Rs. 497,890</u>	<u>Rs. 2,991,598</u>

**7. Inventories**

Inventories consist of the following:

	As of March 31,	As of June 30,
	2003	2003
Raw materials	Rs. 833,663	Rs. 909,663
Stores and spares	285,739	299,493
Work-in-process	676,742	756,229
Finished goods	985,240	916,258
	<u>Rs. 2,781,384</u>	<u>Rs. 2,881,643</u>

During the three months ended June 30, 2002 and 2003, the Company recorded an inventory write-down of Rs.13,662 and Rs.41,778, respectively, resulting from a decrease in the market value of certain finished goods and write down of certain raw materials due to a decrease in the net realizable value of these raw materials and these amounts are included in the cost of goods sold.

**Table of Contents**

**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(in thousands, except share data and where otherwise stated)

**8. Property, plant and equipment, net**

Property, plant and equipment consist of the following:

	As of March 31,	As of June 30,
	2003	2003
Land	Rs. 190,612	Rs. 206,329
Buildings	1,315,896	1,339,984
Plant and machinery	4,692,699	4,866,050
Furniture, fixtures and equipment	566,905	570,864
Vehicles	130,640	144,886
Computer equipment	276,315	294,638
Capital work-in-progress	637,880	833,818
	<u>7,810,947</u>	<u>8,256,569</u>
Accumulated depreciation	(2,980,467)	(3,151,421)
	<u>Rs. 4,830,480</u>	<u>Rs. 5,105,148</u>

Depreciation expense for the three months ended June 30, 2002 and 2003 was Rs.130,454 and Rs.171,856 , respectively.

**9. Employee stock incentive plans**

*Dr. Reddy s Employees Stock Option Plan-2002 (the DRL 2002 Plan )*: The Company adopted the DRL 2002 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the Annual General Meeting held on September 24, 2001. The DRL 2002 Plan covers all employees of DRL and employees of all its subsidiaries. Under the DRL 2002 Plan, the Compensation Committee of the Board (the Committee ) shall administer the DRL 2002 plan and grant stock options to eligible employees of the Company and its subsidiaries. The Committee shall determine the employees eligible for receiving the options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for the options issued on the date of the grant.

The DRL 2002 Plan further provides that in no case shall the per share exercise price of an option be less than the fair market value on the date of grant. The fair market value of a share on each grant date is defined as the weighted average closing price for 30 days prior to the grant, in the stock exchange where there is highest trading volume during that period. Notwithstanding the foregoing, the Committee may, after getting the approval of the shareholders in the Annual General Meeting, grant options with a per share exercise price less than the fair market value. As the number of shares that an individual employee is entitled to receive and the price of the option are known at the grant date, the scheme is considered as a fixed grant.

**Table of Contents**

**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(in thousands, except share data and where otherwise stated)

**9. Employee stock incentive plans (continued)**

Stock option activity under the DRL 2002 Plan is as follows:

	Quarter ended June 30, 2002			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted- average remaining contractual life (months)
Granted during the period	259,400	Rs. 1,063.02	Rs. 1,063.02	76
Forfeited during the period	—			
Outstanding at the end of the period	259,400	Rs. 1,063.02	Rs. 1,063.02	76
Exercisable at the end of the period				

	Quarter ended June 30, 2003			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted- average remaining contractual life (months)
Outstanding at the beginning of the period	543,871	884-1,063.02	Rs. 995.42	68
Granted during the period	369,300	883	883	78
Forfeited during the period	(15,738)	884-1,063.02	1,021.61	
Exercised during the period	—			
Outstanding at the end of the period	897,433	883-1063.02	915.71	70
Exercisable at the end of the period	158,095	Rs. 997.13-1063.02	Rs. 1,025.34	52

*Reddy US Equity Ownership Plan 2000:* In fiscal year 2001, Reddy US Therapeutics, Inc. ( Reddy US ), a consolidated subsidiary, adopted the Reddy US Therapeutics, Inc. 2000 Equity Ownership Plan (the U.S. Plan ) to provide for issuance of stock options to its employees and certain related non-employees. When the U.S. Plan was established, Reddy US reserved 500,000 shares for issuance. Under the U.S. Plan, stock options may be granted at a price per share not less than the fair market value of the underlying equity shares on the date of grant. The options vest over a period of 4 years from the date of the grant with 25% of the options vesting at the end of each year.

**Table of Contents**

**DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES**  
**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
(in thousands, except share data and where otherwise stated)

**9. Employee stock incentive plans (continued)**

Stock option activity under the U.S. Plan was follows:

	Quarter ended June 30, 2002			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	293,500	U.S.\$ 0.18	U.S.\$ 0.18	92
Granted during the period				
Forfeited during the period				
Outstanding at the end of the period	293,500	U.S.\$ 0.18	U.S.\$ 0.18	92
Exercisable at the end of the period				
	Quarter ended June 30, 2003			
	Shares arising out of options	Range of exercise prices	Weighted-average exercise price	Weighted-average remaining contractual life (months)
Outstanding at the beginning of the period	293,500	U.S.\$ 0.18	U.S.\$ 0.18	80
Granted during the period				
Forfeited during the period				
Exercised during the period				
Outstanding at the end of the period	293,500	0.18	0.18	80