DR REDDYS LABORATORIES LTD
Form 6-K
November 23, 2009

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 6-K
REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16 OR 15D-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended September 30, 2009

Commission File Number 1-15182
DR. REDDY S LABORATORIES LIMITED
(Translation of registrant s name into English)
7-1-27, Ameerpet
Hyderabad, Andhra Pradesh 500 016, India
+91-40-23731946

(Address of principal executive office)

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

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):
o

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):
o

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 o No þ

If Yes is marked, indicate below the file number assigned to registrant in connection with Rule 12g3-2(b): 82-_____.

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QUARTERLY REPORT
Quarter Ended September 30, 2009

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 Rs. or rupees or Indian rupees are to the legal currency of India. Our unaudited consolidated condensed interim financial statements are presented in Indian rupees and are prepared and presented in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IAS 34). Convenience translation into U.S. dollars with respect to the unaudited interim condensed consolidated financial statements is also presented. References to a particular fiscal year are to our fiscal year ended March 31 of such year. References to ADS are to our American Depositary Shares. All references to IAS are to the International Accounting Standards, to IASB are to the International Accounting Standards Board, to IFRS are to International Financial Reporting Standards, to SIC are to Standing Interpretations Committee and to IFRIC are to the International Financial Reporting Interpretations Committee.

References to U.S. FDA are to the United States Food and Drug Administration, to NDAs are to New Drug Applications, and to ANDAs are to Abbreviated New Drug Applications.

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. All references to we, us, our, DRL, Dr. Reddy s or the Co mean Dr. Reddy s Laboratories Limited and its subsidiaries. Dr. Reddy s is a registered trademark of Dr. Reddy s Laboratories Limited in India. Other trademarks or trade names used in this Quarterly Report are trademarks registered in the name of Dr. Reddy s Laboratories Limited or 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 September 30, 2009 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.48.09 per U.S.$1.00. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. 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.

Information contained in our website, www.drreddys.com, is not part of this Quarterly Report and no portion of such information is incorporated herein.

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 AND/OR FURNISHED WITH THE SECURITIES AND EXCHANGE COMMISSION (SEC) FROM TIME TO TIME.

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ITEM 1. FINANCIAL STATEMENTS

DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(in millions, except share and per share data)

Particulars	Note	September 30, 2009 *Convenience translation into U.S.$*	As of September 30, 2009	March 31, 2009
ASSETS				
Current assets				
Cash and cash equivalents	6	U.S.$ 128	Rs. 6,149	Rs. 5,596
Other investments		1	27	530
Trade receivables, net		274	13,155	14,592
Inventories	7	273	13,136	13,226
Derivative financial instruments	5		23	
Current tax assets		8	363	58
Other current assets		102	4,899	5,008
Total current assets		**U.S.$ 785**	**Rs. 37,752**	**Rs. 39,010**
Non-current assets				
Property, plant and equipment	8	442	21,278	20,882
Goodwill	9	156	7,494	7,300
Other intangible assets	10	303	14,563	14,879
Investment in equity accounted associates		6	288	262
Deferred income tax assets		23	1,116	1,259
Other non-current assets		4	186	200
Total non-current assets		**U.S.$ 934**	**Rs. 44,925**	**Rs. 44,782**
Total assets		**U.S.$ 1,719**	**Rs. 82,677**	**Rs. 83,792**
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables		U.S.$ 150	Rs. 7,198	Rs. 5,987
Derivative financial instruments	5			332
Current income tax liabilities		27	1,298	632
Bank overdraft	6	3	152	218
Short-term borrowings		43	2,047	5,850
Long-term borrowings, current portion	11	86	4,122	3,501
Provisions		25	1,182	1,928
Other current liabilities		167	8,025	8,105
Total current liabilities		**U.S.$ 500**	**Rs. 24,024**	**Rs. 26,553**
Non-current liabilities				

Long-term loans and borrowings, excluding current portion	11	U.S.$	174	Rs.	8,347	Rs.	10,132
Provisions			1		44		42
Deferred tax liabilities			88		4,229		4,670
Other liabilities			8		385		350
Total non-current liabilities		**U.S.$**	**270**	**Rs.**	**13,005**	**Rs.**	**15,194**
Total liabilities		**U.S.$**	**770**	**Rs.**	**37,029**	**Rs.**	**41,747**

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(in millions, except share and per share data)

Particulars	Note	As of September 30, 2009 *Convenience translation into U.S.$*	As of September 30, 2009	March 31, 2009
Equity				
Share capital		U.S.$ 18	Rs. 844	Rs. 842
Equity shares held by controlled trust			(5)	(5)
Share premium		424	20,379	20,204
Share based payment reserve		13	634	676
Retained earnings		451	21,690	18,305
Other components of equity		44	2,106	2,023
Total equity attributable to:				
Equity holders of the Company		U.S.$ 949	Rs. 45,648	Rs. 42,045
Non controlling interests				
Total equity		**U.S.$ 949**	**Rs. 45,648**	**Rs. 42,045**
Total liabilities and equity		**U.S.$ 1,719**	**Rs. 82,677**	**Rs. 83,792**

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
(in millions, except share and per share data)

Particulars	Note	2009	Six months ended September 30, 2009	2008	Three months ended September 30, 2009	2008
		Convenience translation into U.S.$				
Revenues		U.S.$ 760	Rs. 36,558	Rs. 31,189	Rs. 18,368	Rs. 16,151
Cost of revenues		367	17,666	15,732	9,649	8,187
Gross profit		**U.S.$ 393**	**Rs. 18,892**	**Rs. 15,457**	**Rs. 8,719**	**Rs. 7,964**
Selling, general and administrative expenses		234	11,263	10,370	5,337	5,286
Research and development expenses		41	1,948	1,875	963	825
Other expense/(income), net	13	(3)	(159)	329	(125)	88
Total operating expenses, net		**U.S.$ 271**	**Rs. 13,052**	**Rs. 12,574**	**Rs. 6,175**	**Rs. 6,199**
Results from operating activities		**121**	**5,840**	**2,883**	**2,544**	**1,765**
Finance income		6	298	236	294	92
Finance expense		(5)	(224)	(641)	(85)	(574)
Finance income/(expense), net	14	2	74	(405)	209	(482)
Share of profit of equity accounted investees, net of income tax		1	26	2	15	2
Profit before income tax		**124**	**5,940**	**2,480**	**2,768**	**1,285**
Income tax expense	19	(27)	(1,322)	(316)	(595)	(232)
Profit for the period		**U.S.$ 96**	**Rs. 4,618**	**Rs. 2,164**	**Rs. 2,173**	**Rs. 1,053**
Attributable to:						
Equity holders of the Company		96	4,618	2,164	2,173	1,053
Non-controlling interest						
Profit for the period		**U.S.$ 96**	**Rs. 4,618**	**Rs. 2,164**	**Rs. 2,173**	**Rs. 1,053**

Earnings per share	16									
Basic earnings per share of Rs.5/- each		U.S.$	0.57	Rs.	27.40	Rs.	12.86	Rs.	12.88	Rs. 6.25
Diluted earnings per share of Rs.5/- each		U.S.$	0.57	Rs.	27.26	Rs.	12.80	Rs.	12.82	Rs. 6.23

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
(in millions, except share and per share data)

	Six months ended September 30,			Three months ended September 30,	
	2009	2009	2008	2009	2008
	Convenience translation into U.S.$				
Profit for the period	**U.S.$ 96**	**Rs. 4,618**	**Rs. 2,164**	**Rs. 2,173**	**Rs. 1,053**
Other comprehensive income					
Changes in fair value of available for sale financial instruments	**U.S.$**	**Rs. 14**	**Rs. 13**	**Rs. 6**	**Rs. 9**
Foreign currency translation adjustments	**(1)**	**(62)**	**1,485**	**(172)**	**87**
Effective portion of changes in fair value of cash flow hedges, net	**5**	**242**	**(850)**	**(47)**	**(125)**
Income tax on other comprehensive income	**(2)**	**(111)**	**150**	**(3)**	**33**
Other comprehensive income for the period, net of income tax	**U.S.$ 2**	**Rs. 83**	**Rs. 798**	**Rs. (216)**	**Rs. 4**
Total comprehensive income for the period	**U.S.$ 98**	**Rs. 4,701**	**Rs. 2,962**	**Rs. 1,957**	**Rs. 1,057**
Attributable to:					
Equity holders of the Company	**98**	**4,701**	**2,962**	**1,957**	**1,057**
Non-controlling interest					
Total comprehensive income for the period	**U.S.$ 98**	**Rs. 4,701**	**Rs. 2,962**	**Rs. 1,957**	**Rs. 1,057**

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
(in millions, except share and per share data)

Particulars	Share capital Shares	Share capital Amount	Share premium Amount	Share based payment reserve Amount	Equity shares held by a controlled trust* Amount	Retained earnings Amount	Other components of equity Amount	Non controlling interest Amount	Total Amount
Balance as of April 1, 2009	**168,468,777**	**Rs. 842**	**Rs. 20,204**	**Rs. 676**	**Rs. (5)**	**Rs. 18,305**	**Rs. 2,023**		**Rs. 42,045**
Issue of equity shares on exercise of options	276,502	2	175	(161)					16
Share based payment expense				119					119
Dividend paid (including corporate dividend tax)						(1,233)			(1,233)
Total comprehensive income						4,618	83		4,701
Balance as of September 30, 2009	**168,745,279**	**Rs. 844**	**Rs. 20,379**	**Rs. 634**	**Rs. (5)**	**Rs. 21,690**	**Rs. 2,106**		**Rs. 45,648**
Convenience translation into U.S. $		**18**	**424**	**13**		**451**	**44**		**949**
Balance as of April 1, 2008	**168,172,746**	**Rs. 841**	**Rs. 20,036**	**Rs. 709**	**Rs. (5)**	**Rs. 24,211**	**Rs. 1,558**		**Rs. 47,350**
Issue of equity share on exercise of options	227,982	1	133	(129)					5
Share based payment expense				115					115
Dividend paid (including corporate dividend tax)						(738)			(738)
Total comprehensive income						2,164	798		2,962
Balance as of September 30, 2008	**168,400,728**	**Rs. 842**	**Rs. 20,169**	**Rs. 695**	**Rs. (5)**	**Rs. 25,637**	**Rs 2,356**		**Rs. 49,694**

*

The number of equity shares held by a controlled trust as of April 1, 2008, September 30, 2008, April 1, 2009 and September 30, 2009 was 82,800.

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW
(in millions)

Particulars	For the six months ended September 30, 2009 *Convenience translation into U.S.$*	2009	2008
Cash flows from operating activities:			
Profit for the period	U.S.$ 96	Rs. 4,618	Rs. 2,164
Adjustments for:			
Income tax expense	27	1,322	316
Profit on sale of investments		(14)	(117)
Depreciation and amortization	44	2,121	1,930
Allowance for sales returns	10	498	308
Allowance for doubtful trade receivables	1	64	56
Inventory write-downs	17	814	73
(Profit)/loss on sale of property, plant and equipment, net		22	(13)
Equity in (gain)/loss of equity accounted investees	(1)	(26)	(2)
Unrealized exchange (gain)/loss, net	7	340	(568)
Interest expense, net	2	101	401
Share based payment expense	2	119	115
Negative goodwill on acquisition of business			(150)
Changes in operating assets and liabilities:			
Trade receivables	19	933	(2,705)
Inventories	(15)	(733)	(3,238)
Other assets	5	224	(334)
Trade payables	29	1,388	1,702
Other liabilities and provisions	(27)	(1,279)	281
Income tax paid	(31)	(1,476)	(526)
Net cash from operating activities	**U.S.$ 188**	**Rs. 9,036**	**Rs. (307)**
Cash flows used in investing activities:			
Expenditures on property, plant and equipment	(36)	(1,740)	(2,470)
Proceeds from sale of property, plant and equipment		8	24
Purchase of investments	(261)	(12,555)	(8,601)
Proceeds from sale of investments	272	13,086	12,159
Expenditures on intangible assets	(3)	(129)	(243)
Payment of contingent consideration			(56)
Cash paid for acquisition of business, net of cash received			(3,089)
Cash paid for acquisition of equity accounted investee			(372)
Interest received	2	101	131
Net cash used in investing activities	**(26)**	**(1,229)**	**(2,517)**

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOW
(in millions)

Particulars	For the six months ended September 30, 2009 *Convenience translation into U.S.$*	2009	2008
Cash flows used in financing activities:			
Interest paid	(5)	(236)	(519)
Proceeds from issuance of equity shares		16	5
Proceeds/(Repayment) of short term loans and borrowings, net	(77)	(3,683)	1,435
Repayment of long term loans and borrowings, net	(34)	(1,641)	(958)
Dividend paid (including corporate dividend tax)	(26)	(1,233)	(738)
Net cash used in financing activities	**U.S.$ (141)**	**Rs. (6,777)**	**Rs. (775)**
Net increase/(decrease) in cash and cash equivalents	21	1,030	(3,599)
Effect of exchange rate changes on cash and cash equivalents	(9)	(411)	249
Cash and cash equivalents at the beginning of the period	112	5,378	6,986
Cash and cash equivalents at the end of the period	**U.S.$ 125**	**Rs. 5,997**	**Rs. 3,636**

The accompanying notes form an integral part of these unaudited condensed consolidated interim financial statements.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

1. Reporting Entity

Dr. Reddy s Laboratories Limited (DRL or the parent company), together with its subsidiaries (collectively, the Company), is a leading India-based pharmaceutical company headquartered in Hyderabad, India. The Company s principal areas of operation are in pharmaceutical services and active ingredients, global generics, and proprietary products. The Company s principal research and development facilities are located in Andhra Pradesh, India; its principal manufacturing facilities are located in Andhra Pradesh, India, Himachal Pradesh, India and Cuernavaca-Cuautla, Mexico; and its principal marketing facilities are located in India, Russia and other countries of the former Soviet Union, the United States, the United Kingdom and Germany. The Company s shares trade on the Bombay Stock Exchange and the National Stock Exchange in India and, since April 11, 2001, also on the New York Stock Exchange in the United States.

2. Basis of preparation of financial statements

a) Statement of compliance

These unaudited condensed consolidated interim financial statements as at and for the three and six months ended September 30, 2009 have been prepared under the historical cost convention on the accrual basis, except for certain financial instruments which have been measured at fair values. These unaudited condensed consolidated interim financial statements are prepared and presented in accordance with IAS 34, *Interim Financial Reporting* . They do not include all of the information required for full annual financial statements and should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 20-F for the fiscal year ended March 31, 2009, as amended by Amendment No. 1 on Form 20-F/A dated August 21, 2009 (collectively, the Form 20-F). These unaudited condensed consolidated interim financial statements were authorized for issuance by the Company s Board of Directors on November 19, 2009.

b) Presentation of financial statements

The Company applies revised IAS 1, *Presentation of Financial Statements* (2007), which became effective as of April 1, 2009. As a result, the Company presents in the consolidated statements of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statements of comprehensive income. This presentation has been applied in these unaudited condensed consolidated interim financial statements as of and for the three and six months period ended on September 30, 2009. Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

c) Significant accounting policies

The accounting policies applied by the Company in these unaudited condensed consolidated interim financial statements are the same as those applied by the Company in its audited consolidated financial statements as at and for the year ended March 31, 2009 contained in the Company s Form 20-F.

d) Functional and presentation currency

The unaudited condensed consolidated interim financial statements are presented in Indian rupees, which is the functional currency of DRL. Functional currency of an entity is the currency of the primary economic environment in which the entity operates.

In respect of all non-Indian subsidiaries that operate as marketing arms of the parent company in their respective countries/regions, the functional currency has been determined to be the functional currency of the parent company (i.e., the Indian rupee). Accordingly, the operations of these entities are largely restricted to import of finished goods from the parent company in India, sale of these products in the foreign country and remittance of the sale proceeds to the parent company. The cash flows realized from sale of goods are readily available for remittance to the parent company and cash is remitted to the parent company on a regular basis. The costs incurred by these entities are primarily the cost of goods imported from the parent company. The financing of these subsidiaries is done directly or indirectly by the parent company.

In respect of subsidiaries whose operations are self-contained and integrated within their respective countries/regions, the functional currency has been determined to be the local currency of those countries/regions. The

assets and liabilities of such subsidiaries are

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

2. Basis of preparation of financial statements (continued)

translated into Indian rupees at the rate of exchange prevailing as at the reporting date. Revenues and expenses are translated into Indian rupees at average exchange rates prevailing during the year.

Resulting translation adjustments are included in foreign currency translation reserve. All financial information presented in Indian rupees has been rounded to the nearest million.

e) Convenience translation

The accompanying unaudited condensed consolidated interim financial statements have been prepared in Indian rupees. Solely for the convenience of the reader, the unaudited condensed consolidated interim financial statements as of September 30, 2009 have been translated into United States dollars at the noon buying rate in New York City on September 30, 2009 for cable transfers in Indian rupees, as certified for customs purposes by the Federal Reserve Bank of New York of U.S.$1.00 = Rs.48.09. No representation is made that the Indian rupee amounts have been, could have been or could be converted into U.S. dollars at such a rate or any other rate.

f) Use of estimates and judgments

The preparation of condensed consolidated interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

As at March 31, 2009, due to certain adverse market developments and consequential impairment losses recorded by the Company in its betapharm cash-generating unit, the Company reviewed the useful life of its indefinite life intangible asset trademark/brand beta and determined it to be a finite life intangible asset with a useful life of 12 years. The consequent effect of this change in the amortization expense has been recognized from and after April 1, 2009. In preparing these unaudited condensed consolidated interim financial statements the significant judgments made by management in applying the Company s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended March 31, 2009.

g) Recent accounting pronouncements

Standards early adopted by the Company

IFRS 3 (Revised), *Business Combinations* (2008), as amended, is applicable for annual periods beginning on or after July 1, 2009. This standard was early adopted by the Company as at April 1, 2009. Business combinations consummated after April 1, 2009 will be impacted by this standard. IFRS 3 (Revised) primarily requires the acquisition-related costs to be recognized as period expenses in accordance with the relevant IFRS. Costs incurred to issue debt or equity securities are required to be recognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement: Eligible Hedged Items* . Consideration, after this amendment, will include fair values of all interests previously held by the acquirer. Re-measurement of such interests to fair value would be carried out through net profit in the income statements. Contingent consideration is required to be recognized at fair value even if not deemed probable of payment at the date of acquisition.

IFRS 3 (Revised) provides an explicit option on a transaction-by-transaction basis, to measure any non-controlling interest (NCI) in the entity acquired at fair value of their proportion of identifiable assets and liabilities or at full fair value. The first method will result in a marginal difference in the measurement of goodwill from the measurement under existing IFRS 3; however, the second approach will require recording goodwill on NCI as well as on the acquired controlling interest. Upon consummating a business transaction in the future, the Company is likely to adopt the first method for measuring NCI.

IAS 27, *Consolidated and Separate Financial Statements* (2008), as amended, is applicable for annual periods beginning on or after July 1, 2009. Earlier adoption is permitted, provided that IFRS 3 (Revised) is

also early adopted. This standard was early adopted by the Company as at April 1, 2009. It requires a mandatory adoption of an economic entity model which treats all providers of equity capital as shareholders of the entity. Consequently, a partial disposal of an interest in a subsidiary in which the parent company retains control does not result in a gain or loss but in an increase or decrease in equity. Additionally, purchase of some or all of the NCI is treated as a treasury transaction and accounted for in equity, and a partial disposal of an interest

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(in millions, except share and per share data)

2. Basis of preparation of financial statements (continued)

g) Recent accounting pronouncements (continued)

in a subsidiary in which the parent company loses control triggers recognition of gain or loss on the entire interest. A gain or loss is recognized on the portion that has been disposed of and a further holding gain is recognized on the interest retained, being the difference between the fair value and carrying value of the interest retained. This standard requires an entity to attribute the NCI s share of net profit and reserves to the NCI even if this results in the NCI having a deficit balance.

IFRS 8, *Operating Segments* , is applicable for annual periods beginning on or after July 1, 2009. This standard was early adopted by the Company as at March 31, 2009. IFRS 8 replaces IAS 14, *Segment Reporting* . The new standard requires a management approach , under which segment information is presented on the same basis as that used for internal reporting provided to the chief operating decision maker. The application of this standard did not result in any significant change in the Company s segmental disclosures. Goodwill has been allocated in accordance with the requirements of this standard.

Recently adopted accounting pronouncements

IAS 1 (Revised), *Presentation of Financial Statements* (2007) is applicable for annual periods beginning on or after January 1, 2009. This standard was adopted by the Company as at April 1, 2009. As a result of the adoption of this standard, the title for the balance sheet has been changed to Statement of Financial Position . Furthermore, the Company has included in its unaudited condensed consolidated interim financial statements two statements to display all items of income and expense recognized during the period i.e., an Income Statement and a Statement of Comprehensive Income .

IFRIC Interpretation 18, *Transfers of Assets from Customers* , defines the treatment for property, plant and equipment transferred by customers to companies or for cash received to be invested in property, plant and equipment that must be used either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

The item of property, plant and equipment is to be initially recognized by the Company at fair value with a corresponding credit to revenue. If an ongoing service is identified as a part of the agreement, the period over which revenue shall be recognized for that service would be determined by the terms of the agreement with the customer. If the period is not clearly defined, then revenue should be recognized over a period no longer than the useful life of the transferred asset used to provide the ongoing service. This interpretation is applicable prospectively to transfers of assets from customers received on or after July 1, 2009. The Company has adopted this interpretation prospectively for all assets transferred after July 1, 2009. There has been no material impact on the Company as a result of the adoption of this interpretation.

Standards issued but not yet effective and not early adopted by the Company

In April 2009, the IASB issued *Improvements to IFRSs 2009* a collection of amendments to twelve International Financial Reporting Standards as part of its program of annual improvements to its standards, which is intended to make necessary, but non-urgent, amendments to standards that will not be included as part of another major project. The latest amendments were included in exposure drafts of proposed amendments to IFRS published in October 2007, August 2008, and January 2009. The amendments resulting from this standard mainly have effective dates for annual periods beginning on or after January 1, 2010, although entities are permitted to adopt them earlier. The Company is evaluating the impact of these amendments will have on the Company s unaudited condensed consolidated interim financial statements.

In November 2009, the IASB issued IFRS 9, *Financial instruments* , to introduce certain new requirements for classifying and measuring financial assets. IFRS 9 divides all financial assets that are currently in the

scope of IAS 39 into two classifications those measured at amortized cost and those measured at fair value. The standard along with proposed expansion of IFRS 9 for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment, and hedge accounting will be applicable from the year 2013, although entities are permitted to adopt earlier. The Company is evaluating the impact which this new standard will have on the Company s unaudited condensed consolidated interim financial statements.

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3. Segment reporting

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

Pharmaceutical Services and Active Ingredients (PSAI);

Global Generics; and

Proprietary Products.

Pharmaceutical Services and Active Ingredients. This segment includes active pharmaceutical ingredients and intermediaries, also known as active pharmaceutical products or bulk drugs, which are the principal ingredients for finished pharmaceutical products. Active pharmaceutical ingredients and intermediaries become finished pharmaceutical products when the dosages are fixed in a form ready for human consumption such as a tablet, capsule or liquid using additional inactive ingredients. This segment also includes contract research services and the manufacture and sale of active pharmaceutical ingredients and steroids in accordance with the specific customer requirements.

Global Generics. This segment consists of finished pharmaceutical products ready for consumption by the patient, marketed under a brand name (branded formulations) or as generic finished dosages with therapeutic equivalence to branded formulations (generics). This reportable segment was formed through the combination and re-organization of the Company s former Formulations and Generics segments in the year ended March 31, 2009.

Proprietary Products. This segment involves the discovery of new chemical entities for subsequent commercialization and out-licensing. It also involves the Company s specialty pharmaceuticals business which engages in sales and marketing operations for in-licensed and co-developed dermatology products.

The CODM reviews gross profit as a performance indicator for all three of the above segments. The Company does not review the total assets and liabilities for each segment. The property, plant and equipment used in the Company s business, and the related depreciation and amortization expenses, are not fully identifiable with or allocable to individual reportable segments, as certain assets are used interchangeably between segments. The other assets are not specifically allocable to the segments. Consequently, management believes that it is not practicable to provide segment disclosures relating to total assets and liabilities since allocation among the various segments is not possible.

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3. Segment reporting (continued)

Information about segments:

	For the six months ended September 30,									
	PSAI		Global Generics		Proprietary Products		Others		Total	
Segments	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Segment revenues *(Note 1)*	**Rs. 10,245**	**Rs. 9,441**	**Rs. 25,727**	**Rs. 21,399**	**Rs. 219**	**Rs. 87**	**Rs. 367**	**Rs. 262**	**Rs. 36,558**	**Rs. 31,189**
Gross profit	**Rs. 3,630**	**Rs. 2,921**	**Rs. 15,012**	**Rs. 12,388**	**Rs. 155**	**Rs. 57**	**Rs. 95**	**Rs. 91**	**Rs. 18,892**	**Rs. 15,457**
Selling, general and administrative expenses									11,263	10,370
Research and development expenses									1,948	1,875
Other expense/(income), net									(159)	329
Results from operating activities									**5,840**	**2,883**
Finance income(expense), net									74	(405)
Share of profit/(loss) of equity accounted investees, net of income tax									26	2
Profit before income tax									**5,940**	**2,480**
Income tax expense									(1,322)	(316)
Profit for the period									**Rs. 4,618**	**Rs. 2,164**

Note 1:

Segment revenue for the six months ended September 30, 2009 does not include inter-segment revenues from PSAI to Global Generics which is accounted for at cost of Rs.1,298 (as compared to Rs.1,250 for the six months ended September 30, 2008) and inter-segment revenues from Global Generics to PSAI which is accounted for at cost of Rs.0 (as compared to Rs.4 for the six months ended September 30, 2008).

Information about segments:

	For the three months ended September 30,									
	PSAI		Global Generics		Proprietary Products		Others		Total	
Segments	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Segment revenues *(Note 1)*	**Rs. 5,375**	**Rs. 4,828**	**Rs. 12,706**	**Rs. 11,112**	**Rs. 107**	**Rs. 48**	**Rs. 180**	**Rs. 163**	**Rs. 18,368**	**Rs. 16,151**
Gross profit	**Rs. 1,925**	**Rs. 1,422**	**Rs. 6,700**	**Rs. 6,446**	**Rs. 81**	**Rs. 27**	**Rs. 13**	**Rs. 69**	**Rs. 8,719**	**Rs. 7,964**
Selling, general and administrative expenses									5,337	5,286
Research and development expenses									963	825
Other expense/(income),									(125)	88

net		
Results from operating activities	**2,544**	**1,765**
Finance income, net	209	(482)
Share of profit/(loss) of equity accounted investees, net of income tax	15	2
Profit before income tax	**2,768**	**1,285**
Income tax expense	(595)	(232)
Profit for the period	**Rs. 2,173**	**Rs. 1,053**

Note 1: Segment revenue for the three months ended September 30, 2009 does not include inter-segment revenues from PSAI to Global Generics which is accounted for at cost of Rs.658 (three months ended September 30, 2008: Rs.666).

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3. Segment reporting (continued)

Analysis of revenue by geography within Global Generics segment:

During the fiscal year ended March 31, 2009, although resource allocation was done by the CODM at the Global Generics level, certain additional information (revenue and gross profit) with respect to the Company s formulations and generics businesses continued to be reviewed by the CODM and, accordingly, further detailed information was included in the segment s disclosures. However, effective April 1, 2009, the CODM no longer reviews information with respect to the Company s formulations and generics business. Accordingly, the separate financial information relating to the Company s formulations and generics business is no longer provided. Instead, the CODM reviews the geographical composition of revenues within the Global Generics segment. Accordingly, the geographical revenue information within the Global Generics segment has been provided for the three and six months ended September 30, 2009 with corresponding comparative information.

The following table shows the distribution of the Company s revenues by geography within the Global Generics segment, based on the location of the customer:

	For the six months ended September 30,	
	2009	**2008**
India	Rs. 4,913	Rs. 4,439
North America	10,311	5,948
Russia and other countries of the former Soviet Union	4,218	3,783
Europe	4,958	6,046
Others	1,327	1,183
	Rs. 25,727	**Rs. 21,399**

	For the three months ended September 30,	
	2009	**2008**
India	Rs. 2,520	Rs. 2,237
North America	4,285	3,140
Russia and other countries of the former Soviet Union	2,347	1,855
Europe	2,849	3,184
Others	705	696
	Rs. 12,706	**Rs. 11,112**

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4. Business combinations

a. Acquisition of a unit of The Dow Chemical Company

On April 28, 2008, the Company, through its wholly owned subsidiary Dr. Reddy s Laboratories (EU) Limited, acquired a unit of The Dow Chemical Company associated with its United Kingdom sites in Mirfield and Cambridge for a total cash consideration of Rs.1,302 (U.S.$32). The acquisition included customer contracts and relationships, associated active pharmaceutical ingredient products, process technology and know-how, technology licensing rights and the Dowpharma Small Molecules facilities located in Mirfield and Cambridge, United Kingdom. The Company also took over the existing work force as a part of the acquisition. The acquisition resulted in technology related synergies for the Company s existing Pharmaceutical Services and Active Ingredients segment and gave the Company access to an experienced research and development team.

The Company has accounted for the acquisition under the purchase method in accordance with IFRS No. 3, Business Combinations . Accordingly, the financial results of this acquired business for the period from April 29, 2008 to March 31, 2009 have been included in the unaudited condensed consolidated interim financial statements of the Company.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Particulars		**Recognized values on acquisition**
Property, plant and equipment	Rs.	741
Intangible assets		801
Inventories		231
Non-current liabilities, net		(71)
Deferred tax liabilities, net		(250)
Net identifiable assets and liabilities	**Rs.**	**1,452**
Negative goodwill recognized in other expense/(income), net		(150)
Consideration paid in cash [(1)]	**Rs.**	**1,302**

(1) Total consideration paid includes direct attributable costs of Rs.13.

As the acquisition involved a combination of a purchase of a unit of an existing entity and a purchase of certain identifiable assets, the carrying value of assets and liabilities before acquisition could not be determined in accordance with IFRS.

The estimated useful lives of intangibles acquired are as follows:

Customer related intangibles	4-11 years
Product related intangibles	6-13 years

The negative goodwill on acquisition is attributable mainly to lower amounts paid towards inventories and intangible assets in the acquired business.

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4. Business combinations (continued)

b. Acquisition of BASF Corporation s manufacturing facility in Shreveport, Louisiana, U.S.A. and related pharmaceutical contract manufacturing business.

On April 30, 2008, the Company acquired BASF Corporation s pharmaceutical contract manufacturing business and its manufacturing facility in Shreveport, Louisiana, U.S.A. for a total cash consideration of Rs.1,639 (U.S.$40). The business involves contract manufacturing of generic prescription and OTC products for branded and generic companies in the United States. This business includes customer contracts, related approved ANDAs and approved NDAs, and trademarks, as well as the Shreveport manufacturing facility. The Company also took over the existing work force as a part of the acquisition. This acquisition relates to the Company s Global Generics segment.

The Company has accounted for the acquisition under the purchase method in accordance with IFRS No. 3, Business Combinations . Accordingly, the financial results of this acquired business for the period from May 1, 2008 to March 31, 2009 have been included in the unaudited condensed consolidated interim financial statements of the Company.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

Particulars		Recognized values on acquisition
Property, plant and equipment	Rs.	755
Intangible assets		482
Inventories		249
Deferred tax asset		53
Net identifiable assets and liabilities	**Rs.**	**1,539**
Goodwill on acquisition		100
Consideration paid in cash[1]	**Rs.**	**1,639**

(1) Total consideration paid includes direct attributable costs of Rs.31.

As the acquisition involved purchase of a unit of an existing entity with certain identifiable assets and liabilities, the carrying value of assets and liabilities before acquisition could not be determined in accordance with IFRS.

The estimated useful lives of intangibles acquired are as follows:

Customer related intangibles	4-9 years
Product related intangibles	9-10 years

Goodwill amounts to Rs.100 and is attributable mainly to the employee workforce acquired and the estimated values to be derived from the synergies for the Company due to cost savings.

c. Acquisition of Jet Generici SRL

On April 30, 2008, the Company acquired Jet Generici Srl, a company engaged in the sale of generic finished dosages in Italy, for a total cash consideration of Rs.148 (Euro 2.34). This acquisition resulted in the Company gaining an entry into the Italian market and access to Jet Generici s customers, as well as the Company acquiring Jet Generici s product related intangibles and employee workforce. The transaction was accounted for as an acquisition of a business under the purchase method in accordance with IFRS 3, whereby the Company assumed net liabilities of Rs.14 (primarily consisting of product supply related trade payables) which resulted in goodwill of Rs.162.

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4. Business combinations (continued)

d. Pro-forma information

If the above acquisitions had taken effect at the beginning of the reporting period (i.e., April 1, 2008), the revenue, profit before tax and profit after tax of the Company for the applicable periods on a pro-forma basis would have been as below:

		Six months ended September 30, 2008
Revenue	Rs.	31,333
Profit before tax		2,412
Profit after tax		2,125

5. Financial instruments

Hedging of fluctuations in foreign currency

The Company is exposed to exchange rate risk which arises from its foreign exchange revenues, primarily in U.S. Dollars, British Pounds, Russian roubles and Euros, and foreign currency debt in U.S. Dollars and Euros.

The Company uses forward exchange contracts and option contracts (derivatives) to mitigate its risk of changes in foreign currency exchange rates. Most of the forward exchange contracts and option contracts have maturities of less than one year after the statements of financial position date. Where necessary, the forward exchange contracts are rolled over at maturity.

Forecasted transactions

The Company classifies its option contracts hedging forecasted transactions as cash flow hedges and measures them at fair value. The fair value of option contracts used as hedges of forecasted transactions at September 30, 2009 was a liability of Rs.24 (as compared to a liability of Rs.323 at March 31, 2009). This amount was recognized as derivatives measured at fair value.

Recognized assets and liabilities

Changes in the fair value of forward exchange contracts and option contracts that economically hedge monetary assets and liabilities in foreign currencies and for which no hedge accounting is applied are recognized in the income statements. Both the changes in fair value of the forward contracts and the foreign exchange gains and losses relating to the monetary items are recognized as part of net finance costs . The fair value of forward exchange contracts and option contracts used as economic hedges of monetary assets and liabilities in foreign currencies recognized in fair value derivatives was an asset of Rs.47 at September 30, 2009 (as compared to a liability of Rs.9 at March 31, 2009).

Fair values

The net carrying amount and fair value of all financial instruments, except derivative financial instruments, as at September 30, 2009 was a net liability of Rs.7,234 (as compared to a net liability of Rs.12,038 at March 31, 2009).

6. Cash and cash equivalents

Cash and cash equivalents consist of:

		As of September 30, 2009		As of March 31, 2009
Cash balances	Rs.	10	Rs.	30

Balances with banks	6,139	5,566
Cash and cash equivalents on the statements of financial position	6,149	5,596
Bank overdrafts used for cash management purposes	(152)	(218)
Cash and cash equivalents on the cash flow statement	**Rs. 5,997**	**Rs. 5,378**

Balances with banks amounting to Rs.21 as of September 30, 2009 and Rs.16 as of March 31, 2009, included above represent amounts in the unclaimed dividend accounts, and are therefore restricted.

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7. Inventories

Inventories consist of the following:

	As of	
	September 30, 2009	**March 31, 2009**
Raw materials	Rs. 3,944	Rs. 3,518
Packing material, stores and spares	905	876
Work-in-process	3,284	2,976
Finished goods	5,003	5,856
	Rs. 13,136	**Rs. 13,226**

During the three months and six months ended September 30, 2009, the Company recorded inventory write-downs of Rs.733, and Rs.814, respectively (as compared to Rs.36 and Rs.73 for the three months and six months ended September 30, 2008, respectively). A substantial portion of these write downs during the three months ended September 30, 2009 were on account of:

inventories in the Company s German operations which are likely to reach their expiration dates and remain unsold by the Company, amounting to Rs.390 (Euro 6); and

write downs in relation to the decrease in the net realizable value of sumatriptan resulting from the genericization of the product and subsequent entry of multiple competitors in the United States.

These adjustments were included in cost of revenues. Cost of revenues for the three months and six months ended September 30, 2009 and September 30, 2008 include raw materials, consumables and changes in finished goods and work in progress recognized in the income statements amounting to Rs.7,019, Rs.12,637; and Rs.5,861, Rs.11,258, respectively. The above table includes inventories amounting to Rs.2,157 and Rs.505 which are carried at fair value less cost to sell as at September 30, 2009 and March 31, 2009, respectively.

8. Property, plant and equipment

Acquisitions and disposals

During the six months ended September 30, 2009, the Company acquired assets at an aggregate cost of Rs.1,816 (as compared to a cost of Rs.4,072 and Rs.4,619 for the six months ended September 30, 2008 and the year ended March 31, 2009, respectively), including assets acquired through business combinations of Rs.0 (as compared to a cost of Rs.1,496 for assets acquired through business combinations for the six months ended September 30, 2008 and year ended March 31, 2009). Assets with a net book value of Rs.30 were disposed of during the six months ended September 30, 2009 (as compared to Rs.11 and Rs.66 for the six months ended September 30, 2008 and the year ended March 31, 2009, respectively), resulting in a net loss on disposal of Rs.22 (as compared to a gain of Rs.13 and Rs.15 for the six months ended September 30, 2008 and the year ended March 31, 2009, respectively). Depreciation expense for the three months and six months ended September 30, 2009 was Rs.658 and Rs.1,285, respectively (as compared to Rs.526 and Rs.1,082 for the three months and six months ended September 30, 2008, respectively).

Capital Commitments

As of March 31, 2009 and September 30, 2009, the Company was committed to spend approximately Rs.996 and Rs.1,716, respectively, under agreements to purchase property, plant and equipment. This amount is net of capital advances paid in respect of such purchases.

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9. Goodwill

Goodwill arising upon acquisitions is not amortized but tested for impairment annually or more frequently if there are certain internal or external indicators.

The following table presents the changes in goodwill during the six months ended September 30, 2009 and the year ended March 31, 2009:

	Six months ended September 30, 2009	Six months ended September 30, 2008	Year ended March 31, 2009
Opening balance [1]	Rs. 18,246	Rs. 17,270	Rs. 17,087
Goodwill arising on business combinations		316	262
Effect of translation adjustments [3]	194	982	897
Closing balance [1]	**Rs. 18,440**	**Rs. 18,568**	**Rs. 18,246**
Less: Impairment loss [2]	**(10,946)**	**(90)**	**(10,946)**
	Rs. 7,494	**Rs. 18,478**	**Rs. 7,300**

(1) This does not include goodwill arising upon investment in associates of Rs.181, which is included in the carrying value of the investment in the equity accounted investees.

(2) The impairment loss includes Rs.10,856 for the year ended March 31, 2009 related to the Company s German subsidiary, betapharm

Arzneimittel GmbH, which is part of the Global Generics segment (refer to note 10 for further details). The impairment loss of Rs.90 for the year ended September 30, 2008 relates to the Company s Proprietary Products segment.

(3) Effect of translation adjustments includes Rs.417 on account of translation of impairment loss.

10. Other intangible assets

Acquisitions and Write-down of intangibles

During the three and six months ended September 30, 2009, the Company acquired other intangible assets at an aggregate cost of Rs.10 and Rs.129, respectively (as compared to a cost of Rs.1,637 and Rs.1,647 for the six months ended September 30, 2008 and the year ended March 31, 2009, respectively), including assets acquired through business combinations of Rs.0 (as compared to a cost of Rs.1,312 and for the six months ended September 30, 2008 and the year ended March 31, 2009, respectively). Amortization expenses for the three and six months ended September 30, 2009 were Rs.329 and Rs.836, respectively (as compared to amortization expenses of Rs.472 and Rs.848 for the three months and six months ended September 30, 2008, respectively).

Impairment losses recorded during the year ended March 31, 2009

During the year ended March 31, 2009, there were significant changes in the generics market related to the Company s German subsidiary, betapharm Arzneimittel GmbH (betapharm). These changes included a decrease in the reference prices of its products, increased quantity of discount contracts being negotiated with State Healthcare Insurance (SHI) funds, and announcement of a large competitive bidding sale (or tender) process from the Allgemeine Ortskrankenkassen (AOK), one of the largest SHI funds in Germany. Due to these adverse market developments, as at March 31, 2009, the Company tested the carrying value of its product related intangibles, being the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable value of the above product-related intangibles was determined as the higher of its value in use and its fair value less costs to sell. This resulted in the fair value less costs to sell being the recoverable value of such intangibles. The impairment testing indicated that the carrying values of certain product-related intangibles were higher than their recoverable value, resulting in the Company recording an impairment loss on certain product related intangibles amounting to Rs.3,167 during the year ended March 31, 2009.

As at March 31, 2009, the Company also performed its annual impairment analysis related to the betapharm cash-generating unit, comprised of the above product related intangibles, the indefinite life trademark/brand beta and acquired goodwill. The recoverable value of the betapharm cash-generating unit was based on its fair value less costs to sell, which was higher than its value in use. The impairment testing indicated that the carrying value of the betapharm cash-generating unit was higher than its recoverable value, resulting in the Company recording an

impairment loss of goodwill amounting to Rs.10,856 during the year ended March 31, 2009.

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10. Other intangible assets (continued)

Pursuant to the ongoing reforms in the German generics pharmaceutical market as referenced above, further tenders were announced by several of the SHI funds during the three months ended September 30, 2009. The Company has participated, or intends to participate, in these tenders through its wholly owned subsidiary betapharm. The final results of a majority of these tenders are yet to be announced, and the resultant outcome on betapharm s business is uncertain.

Change in estimated useful life of indefinite life trademark/brand beta

Due to the above adverse market developments and consequential impairment losses recorded by the Company in its betapharm cash-generating unit, the Company reviewed the useful life of its indefinite life intangible asset trademark/brand beta . The carrying amount of this intangible was Rs.6,926 as at March 31, 2009 and the Company determined it to be a finite life intangible asset with a useful life of 12 years. This change will result in an increase in the future annual amortization expense of the Company by approximately Rs.577 (Euro 9) over the next 12 years.

11. Loans and borrowings

Short term loans and borrowings

The Company had undrawn lines of credit of Rs.16,650 and Rs.16,603 as of September 30, 2009 and March 31, 2009, respectively, from its bankers for working capital requirements. These lines of credit are renewable annually. The Company has the right to draw upon these lines of credit based on its requirements.

An interest rate profile of short term borrowings from banks is given below:

	As at	
	September 30, 2009	**March 31, 2009**
Rupee borrowings	7.52%	7.52%
Foreign currency borrowings	LIBOR+ 100 bps	LIBOR+ 100 -225bps

Long term loans and borrowings

Long term loans and borrowings consist of the following:

	As of	
	September 30, 2009	**March 31, 2009**
Rupee term loan	Rs. 4	Rs. 7
Foreign currency loan	12,164	13,326
Obligations under finance leases	301	300
	12,469	**13,633**
Less: Current portion		
Rupee term loan	3	6
Foreign currency loan	4,099	3,477
Obligations under finance leases	20	18

		4,122		**3,501**
Non-current portion				
Rupee term loan		1		1
Foreign currency loan		8,065		9,849
Obligations under finance leases		281		282
	Rs.	**8,347**	**Rs.**	**10,132**

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11. Loans and borrowings (continued)

During the six month period ended September 30, 2009, the Company repaid Rs.1,631 of foreign currency loans (consisting of Euro 22.8 and U.S.$1.28), Rs.3 of rupee term loans and Rs.7 of obligations under capital leases. During the year ended March 31, 2009, the Company repaid Rs.1,907 of foreign currency loans (consisting of Euro 27 and U.S.$2), Rs.6 of rupee term loans and Rs.12 of obligations under finance leases.

An interest rate profile of long-term debt is given below:

	As of	
	September 30, 2009	**March 31, 2009**
Rupee borrowings	2.00%	2.00%
Foreign currency borrowings	EURIBOR +70 bps and LIBOR+70 bps	EURIBOR +70 bps and LIBOR+70 bps

12. Amalgamation of Perlecan Pharma Private Limited

During the six months ended September 30, 2009, the Company concluded a legal reorganization to amalgamate its wholly- owned subsidiary, Perlecan Pharma Private Limited (Perlecan), into its own operations. The appropriate High Court approval was received by the Company during the six months ended September 30, 2009, which states that the Company is able to offset the carry-forward tax losses of Perlecan against the taxable income of the Company for periods effective January 1, 2006. Accordingly, the Company has recorded an amount of Rs.281, representing the tax benefit arising from the carried forward tax losses of Perlecan as a reduction to its current tax liability with an offset to the existing deferred tax asset recognized for the tax losses of Perlecan as at March 31, 2009.

13. Other expense/(income), net

Other expense/(income), net consists of the following:

	Six months ended September 30,		Three months ended September 30,	
	2009	**2008**	**2009**	**2008**
Loss/(profit) on sale of property, plant and equipment	Rs. 22	Rs. (13)	Rs. 9	Rs. (9)
Sale of spent chemical	(98)	(130)	(57)	(69)
Negative goodwill on acquisitions of business		(150)		
Miscellaneous income	(134)	(124)	(77)	(64)
Provision for expected claim from innovator (see Note 21)	48	745		230
Other expenses	3	1		
	Rs. (159)	**Rs. 329**	**Rs. (125)**	**Rs. 88**

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14. Finance income/(expense), net

Finance income/(expense), net consists of the following:

	Six months ended September 30,		Three months ended September 30,	
	2009	**2008**	**2009**	**2008**
Interest income	Rs. 123	Rs. 120	Rs. 43	Rs. 50
Foreign exchange gain/(loss)	161	(120)	245	(296)
Profit on sale of investments	14	116	6	42
Interest expense	(224)	(521)	(85)	(278)
	Rs. 74	**Rs. (405)**	**Rs. 209**	**Rs. (482)**

15. Share capital and share premium

During the six months ended September 30, 2009 and September 30, 2008, 276,502 and 227,982 equity shares, respectively, were issued as a result of the exercise of vested options granted to employees pursuant to the Dr. Reddy s Employees Stock Option Plan-2002 and the Dr. Reddy s Employees ADR Stock Option Plan-2007. Each of these options was exercised at an exercise price of Rs.5. The amount of grant date fair value previously recognized for these options has been transferred from share based payment reserve to share premium in the statements of financial position.

16. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six month period ended September 30, 2009 was based on the profit attributable to equity shareholders of Rs.4,618 (as compared to a profit of Rs.2,164 for the six months ended September 30, 2008) and a weighted average number of equity shares outstanding during the six months ended September 30, 2009 and six months ended September 30, 2008 calculated as follows:

	Six months ended September 30,	
	2009	**2008**
Issued equity shares as on April 1	168,468,777	168,172,746
Effect of shares issued on exercise of stock options	126,910	102,049
Weighted average number of equity shares at September 30	168,595,687	168,274,795

The calculation of basic earnings per share for the three month period ended September 30, 2009 was based on the profit attributable to equity shareholders of Rs.2,173 (as compared to a profit of Rs.1,053 for the three months ended September 30, 2008) and a weighted average number of equity shares outstanding during the three months ended September 30, 2009 and three months ended September 30, 2008 calculated as follows:

	Three months ended September 30,	
	2009	**2008**
Issued equity shares as on July 1	168,667,270	168,297,383
Effect of shares issued on exercise of stock options	23,742	42,639

Weighted average number of equity shares at September 30	168,691,012	168,340,022

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16. **Earnings per share (continued)**

Diluted earnings per share

The calculation of diluted earnings per share for the six months ended September 30, 2009 was based on the profit attributable to equity shareholders of Rs.4,618 (as compared to a profit of Rs.2,164 for the six months ended September 30, 2008) and weighted average number of equity shares outstanding during the six months ended September 30, 2009 and six months ended September 30, 2008 calculated as follows:

	Six months ended September 30,	
	2009	**2008**
Weighted average number of equity shares at September 30 (Basic)	168,595,687	168,274,795
Effect of stock options outstanding	867,068	734,360
Weighted average number of equity shares at September 30 (Diluted)	169,462,755	169,009,155

The calculations of diluted earnings per share for the three months ended September 30, 2009 was based on the profit attributable to equity shareholders of Rs.2,173 (as compared to Rs.1,053 for the three months ended September 30, 2008) and weighted average number of equity shares outstanding during the three months ended September 30, 2009 and three months ended September 30, 2008 calculated as follows:

	Three months ended September 30,	
	2009	**2008**
Weighted average number of ordinary shares at September 30 (Basic)	168,691,012	168,340,022
Effect of stock options outstanding	816,495	579,537
Weighted average number of equity shares at September 30 (Diluted)	169,507,507	168,919,559

17. Employee stock incentive plans

Dr. Reddy s Employees Stock Option Plan-2002 (the DRL 2002 Plan):

The Company instituted the DRL 2002 Plan for all eligible employees pursuant to the special resolution approved by the shareholders in the annual general meeting of shareholders held on September 24, 2001. The DRL 2002 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, eligible employees). The compensation committee of the Board of DRL (the Compensation Committee) administers the DRL 2002 Plan and grants stock options to eligible employees. The Compensation Committee determines which eligible employees will receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of grant. The options issued under the DRL 2002 Plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2002 Plan was amended on July 28, 2004 at the annual general meeting of shareholders to provide for stock option grants in two categories:

Category A: 1,721,700 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 573,778 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., Rs.5 per option).

The DRL 2002 Plan was further amended on July 27, 2005 at the annual general meeting of shareholders to provide for stock option grants in two categories:

Category A: 300,000 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,995,478 stock options out of the total of 2,295,478 options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., Rs.5 per option).

Under the DRL 2002 Plan, the exercise price of the fair market value options granted under Category A above is determined based on the 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 Compensation Committee may, after obtaining the approval of the shareholders in the annual general meeting, grant options with a per share exercise price other than fair market value and par value of the equity shares.

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17. Employee stock incentive plans (continued)

After the stock split effected in the form of a stock dividend issued by the Company in August 2006, the DRL 2002 Plan provides for stock options granted in the above two categories as follows:

Particulars	Number of Options granted under Category A	Number of Options granted under Category B	Total
Options reserved under original Plan	300,000	1,995,478	2,295,478
Options exercised prior to stock dividend date (A)	94,061	147,793	241,854
Balance of shares that can be allotted on exercise of options (B)	205,939	1,847,685	2,053,624
Options arising from stock dividend (C)	205,939	1,847,685	2,053,624
Options reserved after stock dividend (A+B+C)	505,939	3,843,163	4,349,102

The Compensation Committee, at its meeting held in October 2007, proposed that the Company should absorb the full liability of the Fringe Benefit Tax upon exercise of all stock options granted on or prior to the date of its resolution. In respect of new grants to be made by the Company subsequent to the date of such resolution, the Fringe Benefit Tax will be recovered from employees upon the exercise of their stock options. An amendment to the DRL 2002 Plan reflecting the Compensation Committee s proposal was approved by the shareholders at the annual general meeting held on July 22, 2008.

In April 2007, certain employees surrendered their par value options under category B of the DRL 2002 Plan in exchange for par value options under category B of the DRL 2007 Plan (discussed below). The incremental cost due to such modifications was insignificant.

Dr. Reddy s Employees ADR Stock Option Plan-2007 (the DRL 2007 Plan):

The Company instituted the DRL 2007 Plan for all eligible employees in pursuance of the special resolution approved by the shareholders in the annual general meeting held on July 27, 2005. The DRL 2007 Plan became effective upon its approval by the Board of Directors on January 22, 2007. The DRL 2007 Plan covers all employees of DRL and its subsidiaries and directors (excluding promoter directors) of DRL and its subsidiaries (collectively, eligible employees). The Compensation Committee administers the DRL 2007 Plan and grants stock options to eligible employees. The Compensation Committee determines which eligible employees will receive options, the number of options to be granted, the exercise price, the vesting period and the exercise period. The vesting period is determined for all options issued on the date of grant. The options issued under DRL 2007 plan vest in periods ranging between one and four years and generally have a maximum contractual term of five years.

The DRL 2007 Plan provides for option grants in two categories:

Category A: 382,695 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the fair market value of the underlying equity shares on the date of grant; and

Category B: 1,148,084 stock options out of the total of 1,530,779 stock options reserved for grant having an exercise price equal to the par value of the underlying equity shares (i.e., Rs.5 per option).

The Compensation Committee, at its meeting held in October 2007, proposed that the Company should absorb the full liability of the Fringe Benefit Tax upon exercise of all stock options granted on or prior to the date of its resolution. In respect of new grants to be made by the Company subsequent to the date of such resolution, the Fringe Benefit Tax will be recovered from employees upon the exercise of their stock options. An amendment to the DRL 2007 Plan reflecting the Compensation Committee s proposal was approved by the shareholders at the annual general meeting held on July 22, 2008.

During the three months ended September 30, 2009, the Government of India through its Finance Bill, 2009 has proposed the abolishment of the Fringe Benefit Tax, including those applicable to employee share based payments. Under this proposal, the Fringe Benefit Tax payable by the employer as a result of share based payments would be replaced by an income tax payable by the employees as a perquisite (as defined in the Indian Income Tax Act, 1961) based on the value of the underlying share as on the date of exercise of the options. However the valuation requirements and other details relevant to calculation of the tax have not yet been published by the Government of India. Consequent to this abolishment and in furtherance of the resolution passed by the Company on July 22, 2008, management resolved to absorb the consequent Fringe Benefit Tax liability for the options granted on or prior to May 18, 2008.

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17. Employee stock incentive plans (continued)

Aurigene Discovery Technologies Ltd. Employee Stock Option Plan 2003 (the Aurigene ESOP Plan):

Aurigene Discovery Technologies Limited (Aurigene), a consolidated subsidiary, adopted the Aurigene ESOP Plan to provide for issuance of stock options to employees of Aurigene and its subsidiary, Aurigene Discovery Technologies Inc., who have completed one full year of service with Aurigene or its subsidiary. Aurigene has reserved 4,550,000 of its ordinary shares for issuance under this plan. Under the Aurigene ESOP Plan, stock options may be granted at an exercise price as determined by Aurigene s compensation committee. The options issued under the Aurigene ESOP Plan vest in periods ranging from one to three years, including certain options which vest immediately on grant, and generally have a maximum contractual term of three years.

During the year ended March 31, 2008, the Aurigene ESOP Plan was amended to increase the total number of options reserved for issuance to 7,500,000 and to provide for Aurigene s recovery of the Fringe Benefit Tax from employees upon the exercise of their stock options.

Aurigene Discovery Technologies Ltd. Management Group Stock Grant Plan (the Aurigene Management Plan):

In the year ended March 31, 2004, Aurigene adopted the Aurigene Management Plan to provide for issuance of stock options to management employees of Aurigene and its subsidiary Aurigene Discovery Technologies Inc. Aurigene has reserved 2,950,000 of its ordinary shares for issuance under this plan. Under the Aurigene Management Plan, stock options may be granted at an exercise price as determined by Aurigene s compensation committee. As of March 31, 2008, there were no stock options outstanding under the Aurigene Management Plan. The plan was closed by a resolution of the shareholders in January 2008.

Stock option activity during the period:

The terms and conditions of the grants made during the six months ended September 30, 2009 under the above plans were as follows:

	Number of instruments	Exercise price	Vesting period	Contractual life
DRL 2002 Plan:				
- Category A				
- Category B	359,840	Rs.5.00	1 to 4 years	5 years
DRL 2007 Plan:				
- Category A				
- Category B	74,600	Rs.5.00	1 to 4 years	5 years

Aurigene ESOP Plan:

The terms and conditions of the grants made during the six months ended September 30, 2008 under the above plans are as follows:

	Number of instruments	Exercise price	Vesting period	Contractual life
DRL 2002 Plan:				
- Category A				
- Category B	350,820	Rs.5.00	1 to 4 years	5 years
DRL 2007 Plan:				
- Category A				
- Category B	74,400	Rs.5.00	1 to 4 years	5 years

Aurigene ESOP Plan:

There were no grants made during the three months ended September 30, 2009 and September 30, 2008.

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17. Employee stock incentive plans (continued)

The weighted average inputs used in computing the fair value of such grants were as follows:

	Six months ended September 30,	
	2009	**2008**
Expected volatility	36.45%	29.39%
Exercise price	Rs. 5.00	Rs. 5.00
Option life	2.44 Years	2.44 Years
Risk-free interest rate	5.05%	7.84%
Expected dividends	0.82%	0.59%
Grant date share price	612.95	639.85

The fair values of services received in return for share options granted to employees are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on the Black Scholes model.

For the six months ended September 30, 2009 and 2008, amounts of Rs.119 and Rs.115, respectively, have been recorded as total employee share based expense under all employee stock incentive plans. For the three months ended September 30, 2009 and 2008, amounts of Rs.79 and Rs.80, respectively, have been recorded as total employee share based expense under all employee stock incentive plans. As of September 30, 2009, there was approximately Rs.239 of total unrecognized compensation cost related to unvested stock options. This cost is expected to be recognized over a weighted-average period of 2.92 years.

18. Employee benefit plans

Gratuity benefits

In accordance with applicable Indian laws, the Company provides for gratuity, a defined benefit retirement plan (the Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment. The amount of payment is based on the respective employee s last drawn salary and the years of employment with the Company. Effective September 1, 1999, the Company established the Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund). Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund. Trustees administer the contributions made to the Gratuity Fund. Amounts contributed to the Gratuity Fund are invested in specific securities as mandated by law and generally consist of federal and state government bonds and debt instruments of government-owned corporations.

The components of net periodic benefit cost for the six months ended September 30, 2009 and 2008 are as follows:

	Six months ended September 30,	
	2009	**2008**
Service cost	Rs. 25	Rs. 21
Interest cost	15	13
Expected return on plan assets	(13)	(10)
Recognized net actuarial (gain)/loss	3	
Net amount recognized	**Rs. 30**	**Rs. 24**

The components of net periodic benefit cost for the three months ended September 30, 2009 and 2008 are as follows:

	Three months ended September 30,	
	2009	**2008**
Service cost	Rs. 12	Rs. 11
Interest cost	8	6
Expected return on plan assets	(7)	(5)
Recognized net actuarial (gain)/loss	1	
Net amount recognized	**Rs. 14**	**Rs. 12**

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18. Employee benefit plans (continued)

Pension plan

All employees of Industrias Quimicas Falcon de Mexico S.A. de C.V. (Falcon) are entitled to a pension plan in the form of a defined benefit plan. The pension plan provides a payment to vested employees at retirement or termination of employment. This payment is based on the employee s integrated salary and is paid in the form of a monthly pension over a period of 20 years computed based on a predefined formula. Liabilities in respect of the pension plan are determined by an actuarial valuation, based upon which the Company makes contributions to the pension plan fund. This fund is administered by a third party who is provided guidance by a technical committee formed by senior employees of Falcon.

The components of net periodic benefit cost for the six months ended September 30, 2009 and 2008 are as follows:

	Six months ended September 30,	
	2009	**2008**
Service cost	Rs. 6	Rs. 7
Interest cost	12	11
Expected return on plan assets	(10)	(9)
Amortization of net transition obligation/(asset)	4	2
Net amount recognized	**Rs. 12**	**Rs. 11**

The components of net periodic benefit cost for the three months ended September 30, 2009 and 2008 are as follows:

	Three months ended September 30,	
	2009	**2008**
Service cost	Rs. 3	Rs. 4
Interest cost	6	5
Expected return on plan assets	(5)	(4)
Amortization of net transition obligation/(asset)	2	1
Net amount recognized	**Rs. 6**	**Rs. 6**

Severance payments of German subsidiaries

On account of the significant adverse events in the German generic pharmaceuticals market as described in note 10 above, the Company resolved to implement a workforce reduction and restructuring of its German subsidiaries, betapharm and Reddy Holding GmbH, to achieve a more sustainable workforce structure in light of the current climate within the German generic pharmaceuticals industry. Accordingly, during the six months ended September 30, 2009, the management and works councils (i.e., organizations representing workers) of betapharm and Reddy Holding GmbH entered into a reconciliation of interest agreement, which set out the overall termination benefits payable to identified employees. Accordingly, an amount of Rs.435 (Euro 6.6) has been recorded as termination benefits and is included as part of Selling and general and administrative expenses in the unaudited consolidated condensed interim income statements for the six months ended September 30, 2009.

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19. Income taxes

Income tax expenses are recognized based on the Company s best estimate of the average annual income tax rate for the financial year applied to the pre-tax income of the interim period. The Company s consolidated effective tax rate for the six months ended September 30, 2009 and September 30, 2008 was 22.25% and 12.75%, respectively. The difference between the estimated average annual effective income tax rate and the enacted tax rate is accounted for by a number of factors, including the effect of differences between Indian and foreign tax rates, expenses not deductible for tax purposes, income exempted from income taxes, effects of changes in tax laws and rates, and the effects of minimum alternate taxes.

Current tax and deferred tax recognized in the Company s income statement are as follows:

	Six months ended September 30,		Three months ended September 30,	
	2009	**2008**	**2009**	**2008**
Current tax expense	Rs. 2,129	Rs. 599	Rs. 388	Rs. 190
Deferred tax expense/(benefit)	(807)	(283)	207	42
Income tax expense	**Rs. 1,322**	**Rs. 316**	**Rs. 595**	**Rs. 232**

The total deferred tax recognized directly in the equity is tax expense amounting to Rs.111 for the six months ended September 30, 2009 (as compared to a tax benefit amounting to Rs.150 for the six months ended September 30, 2008).

The effective tax rate for the six months ended September 30, 2009 increased significantly as compared to the six months ended September 30, 2008, and such increase was primarily attributable to:

An increase in the projected annual profits in jurisdictions having higher tax rates for the current fiscal year ending March 31, 2010; and

During the six months ended September 30, 2008, the effective tax rate included a tax benefit that arose in the Company s German operations, largely on account of a provision for damages in the olanzapine litigation between Eli Lilly and the Company in Germany, as described in the Company s Annual Report on Form 20-F for the fiscal year ended March 31, 2009. The effective tax rate during the six months ended September 30, 2009 did not enjoy any such tax benefit.

20. Related parties

The Company has entered into transactions with the following related parties:

Diana Hotels Limited for availing hotel services;

A.R. Life Sciences Private Limited for availing processing services of raw materials and intermediates;

Dr. Reddy s Holdings Private Limited for the purchase and sale of active pharmaceutical ingredients;

Dr. Reddy s Foundation for Human and Social Development towards contributions for social development;

Institute of Life Science towards contributions for social development;

K.K. Enterprises for availing packaging services for formulation products;

SR Enterprises for transportation services; and

Dr. Reddy s Laboratories Gratuity Fund.

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20. Related parties (continued)

These are enterprises over which key management personnel have control or significant influence (significant interest entities). Key management personnel consists of the Company s Directors and Management council members. Additionally, the Company has also provided/taken loans and advances from significant interest entities.

The Company has also entered into transactions with its former equity accounted investee Perlecan Pharma (now a subsidiary) and its joint venture Reddy Kunshan. These transactions are in the nature of reimbursement of research and development expenses incurred by the Company on behalf of Perlecan Pharma, revenue from research services performed by the Company for Perlecan Pharma and purchase of active pharmaceutical ingredients by the Company from Reddy Kunshan.

The Company has also entered into cancellable operating lease transactions with key management personnel and their relatives.

The Company contributes to the Dr. Reddy s Laboratories Gratuity Fund (the Gratuity Fund), which maintains the plan assets of the Company s Gratuity Plan for the benefit of its employees. During the six months ended September 30, 2009 and September 30, 2008, the Company paid Rs.64 and Rs.30, respectively, to the Gratuity Fund.

The following is a summary of significant related party transactions:

	Six months ended September 30,		Three months ended September 30,	
	2009	2008	2009	2008
Purchases from significant interest entities	149	147	85	98
Sales to significant interest entities	57	66	36	37
Contribution to a significant interest entity towards social development	73	69	25	34
Lease rental paid under cancellable operating leases to key management personnel and their relatives	13	11	6	6
Hotel expenses paid	4	5	2	3
Advances taken from significant interest entities		60		60

The above table does not include the following transactions between key management personnel and the Company:

During the three months ended September 30, 2009, the Company exchanged a parcel of land owned by it for another parcel of land of equivalent size that adjoins its research facility, owned by the Company s key management personnel. The Company concluded that this exchange transaction lacks commercial substance and has accordingly recorded the land acquired at the carrying amount of the land transferred, with no profit or loss being recorded.

Purchase of land amounting to Rs.21 from a significant interest entity.

The following table describes the components of compensation paid to key management personnel:

Particulars	Six months ended September 30,		Three months ended September 30,	
	2009	2008	2009	2008
Salaries	Rs. 139	Rs. 164	Rs. 32	Rs. 56
Commission*	140	91	65	26
Other perquisites	3	1	1	
Share-based payments	17	20	10	5

Total	**Rs. 299**	**Rs. 276**	**Rs. 108**	**Rs. 87**

* Accrued based on profit as of the applicable date in accordance with the terms of employment.

Some of the key management personnel of the Company are also covered under the Company s Gratuity Plan along with the other employees of the Company. Proportionate amounts of gratuity accrued under the Company s Gratuity Plan have not been separately computed or included in the above disclosure.

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20. Related parties (continued)

The Company had the following amounts due from related parties:

	As at September 30, 2009	As at March 31, 2009
Significant interest entities	Rs. 31	Rs. 43
Key management personnel	6	5

The above tables as at September 30, 2009 and March 31, 2009 do not include the amounts of Rs.1,080 and Rs.1,080, respectively, paid as advances towards the purchase of land from a significant interest entity, which has been disclosed under capital work-in-progress in the Company s statements of financial position.

The Company had the following amounts due to related parties:

	As at September 30, 2009	As at March 31, 2009
Significant interest entities	Rs. 94	Rs. 68

21. Contingencies

Guarantees

The Company s equity accounted investee, Reddy Kunshan, secured a credit facility of Rs.36 from First Sino Bank. As of September 30, 2009, the Company had issued a corporate guarantee of Rs.36 in favor of First Sino Bank to enhance the credit standing of Reddy Kunshan. The guarantee is required to be renewed every year and the Company s liability may arise in the event of non-payment by Reddy Kunshan of the amount withdrawn under its credit facility.

Litigations, etc.

The Company is involved in disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. The more significant matters are discussed below. Most of the claims involve complex issues. Often, these issues are subject to uncertainties and therefore the probability of a loss, if any, being sustained and an estimate of the amount of any loss is difficult to ascertain. Consequently, for a majority of these claims, it is not possible to make a reasonable estimate of the expected financial effect, if any, that will result from ultimate resolution of the proceedings. This is due to a number of factors, including: the stage of the proceedings (in many cases trial dates have not been set) and the overall length and extent of pre-trial discovery; the entitlement of the parties to an action to appeal a decision; clarity as to theories of liability; damages and governing law; uncertainties in timing of litigation; and the possible need for further legal proceedings to establish the appropriate amount of damages, if any. In these cases, the Company discloses information with respect to the nature and facts of the case. The Company also believes that disclosure of the amount sought by plaintiffs, if that is known, would not be meaningful with respect to those legal proceedings.

Although there can be no assurance regarding the outcome of any of the legal proceedings or investigations referred to in this note 21 to the unaudited condensed consolidated interim financial statements, the Company does not expect them to have a materially adverse effect on its financial position. However, if one or more of such proceedings were to result in judgments against the Company, such judgments could be material to its results of operations in a given period.

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21. Contingencies (Continued)

Product and patent related matters

Norfloxacin, India litigation

The Company manufactures and distributes Norfloxacin, a formulations product. Under the Drugs Prices Control Order (the DPCO), the Government of India has the authority to designate a pharmaceutical product as a specified product and fix the maximum selling price for such product. In 1995, the Government of India issued a notification and designated Norfloxacin as a specified product and fixed the maximum selling price. In 1996, the Company filed a statutory Form III before the Government of India for the upward revision of the maximum selling price and a legal suit in the Andhra Pradesh High Court (the High Court) challenging the validity of the designation on the grounds that the applicable rules of the DPCO were not complied with while fixing the maximum selling price. The High Court had previously granted an interim order in favor of the Company; however it subsequently dismissed the case in April 2004. The Company filed a review petition in the High Court in April 2004 which was also dismissed by the High Court in October 2004. Subsequently, the Company appealed to the Supreme Court of India, New Delhi (the Supreme Court) by filing a Special Leave Petition, which is currently pending.

During the year ended March 31, 2006, the Company received a notice from the Government of India demanding the recovery of the price charged by the Company for sales of Norfloxacin in excess of the maximum selling price fixed by the Government of India, amounting to Rs.285 including interest thereon. The Company filed a writ petition in the High Court challenging this demand order. The High Court admitted the writ petition and granted an interim order, directing the Company to deposit 50% of the principal amount claimed by the Government of India, which amounted to Rs.77. The Company deposited this amount with the Government of India in November 2005 and is awaiting the outcome of its appeal with the Supreme Court. In February 2008, the High Court directed the Company to deposit an additional amount of Rs.30, which was deposited by the Company in March 2008. The Company has fully provided for the potential liability related to the principal amount demanded by the Government of India. In the event the Company is unsuccessful in its litigation in the Supreme Court, it will be required to remit the sale proceeds in excess of the maximum selling price to the Government of India including penalties or interest, if any, which amounts are not readily ascertainable.

Fexofenadine, United States litigation

In April 2006, the Company launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are generic versions of Sanofi-Aventis (Aventis) Allegra® tablets. The Company is presently defending patent infringement actions brought by Aventis in the United States District Court for the District of New Jersey. There are three formulation patents, three use patents, and two active pharmaceutical ingredients (API) patents which are at issue in the litigation. The Company has obtained summary judgment in respect of each of the formulation patents. Teva Pharmaceuticals Industries Limited (Teva) and Barr Pharmaceuticals, Inc. (Barr) were defending a similar action in the same court.

In September 2005, pursuant to an agreement with Barr, Teva launched its fexofenadine hydrochloride 30 mg, 60 mg and 180 mg tablet products, which are AB-rated (bioequivalent) to Aventis Allegra® tablets. Aventis brought patent infringement actions against Teva and its API supplier in the United States District Court for the District of New Jersey. There were three formulation patents, three use patents, and two API patents at issue in the litigation. Teva obtained summary judgment in respect of each of the formulation patents. On January 27, 2006, the District Court denied Aventis motion for a preliminary injunction against Teva and its API supplier on the three use patents, finding those patents likely to be invalid, and one of the API patents, finding that patent likely to be not infringed. The issues presented during Teva s hearing are likely to be substantially similar to those which will be presented with respect to the Company s fexofenadine hydrochloride tablet products. Subsequent to the preliminary injunction hearing, Aventis sued Teva and Barr for infringement of a new patent claiming polymorphic forms of fexofenadine. The Company utilizes an internally developed polymorph and has not been sued for infringement of the new patent. On November 18, 2008, Teva and Barr announced settlement of their litigation with Aventis. Litigation between the

Company and Aventis continues. No trial has been scheduled at this time. If Aventis is ultimately successful in its allegation of patent infringement, the Company could be required to pay damages related to fexofenadine hydrochloride tablet sales made by the Company, and could also be prohibited from selling these products in the future.

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21. Contingencies (Continued)

Alendronate Sodium, Germany litigation

In February 2006, Merck & Co. (Merck) initiated proceedings against betapharm before the German Civil Court of Mannheim alleging infringement of the basic patent for Fosamax (Merck s brand name for alendronate sodium). betapharm and some other companies are selling generic versions of this product in Germany. Merck s patent, which expired in April 2008, was nullified in June 2006 by the German Federal Patent Court. However, Merck filed an appeal against this decision at the German Federal Supreme Court. The German Civil Court of Mannheim decided to stay the proceedings against betapharm until the German Federal Supreme Court has decided upon the validity of the patent. In March 2007, the European Patent Office granted Merck another patent for Fosamax, which is relevant to the composition of betapharm s alendronate sodium product. betapharm filed protective writs to prevent a preliminary injunction without a hearing. betapharm also filed an opposition against this new patent at the European Patent Office, which scheduled a hearing on the matter in March 2009. In August 2007, Merck initiated patent infringement proceedings against betapharm before a German civil court. In the oral hearing which took place in March 2009 at the European Patent Office, the new patent was nullified. There are other jurisdictions within Europe where Merck s patent has already been revoked. As a result of this, the Company continues selling its generic version of Fosamax. If Merck is ultimately successful in its allegations of patent infringement, the Company could be required to pay damages related to the above product sales made by the Company, and could also be prohibited from selling these products in the future.

Oxycodon, Germany litigation

The Company is aware of litigation with respect to one of its suppliers for oxycodon, which is sold by the Company and other generic pharmaceutical companies in Germany. In April 2007, a German trial court rejected an application for an interim order by the innovator company against the Company s supplier. The innovator has filed an infringement suit of formulation patents against the Company s supplier in the German Civil Court of Mannheim as well as in Switzerland (where the product is manufactured). The Company s supplier and all licensees have filed a nullity petition at the German Federal Patent Court, and have also filed a Declaration of Intervention Against at the European Patent Office. The German court in Mannheim decided that the Company s supplier s product is non-infringing, but the innovator appealed the decision. The appeal is pending. As of September 30, 2009, based on a legal evaluation, the Company continues to sell this product.

Olanzapine, Canada litigation

The Company supplies certain generic products, including olanzapine tablets (the generic version of Eli Lilly s Zyprexa® tablets), to Pharmascience, Inc. for sale in Canada. Several generic pharmaceutical manufacturers have challenged the validity of the Zyprexa patents in Canada. In June 2007, the Canadian Federal Court held that the invalidity allegation of one such challenger, Novopharm Ltd., was justified and denied Eli Lilly s request for an order prohibiting sale of the product. Eli Lilly responded by suing Novopharm for patent infringement. Eli Lilly also sued Pharmascience for patent infringement, but that litigation was dismissed after the parties agreed to be bound by the final outcome in the Novopharm case. As reflected in Eli Lilly s regulatory filings, the settlement allows Pharmascience to market olanzapine tablets subject to a contingent damages obligation should Eli Lilly be successful in its litigation against Novopharm. The Company s agreement with Pharmascience includes a provision under which the Company shares a portion of all cost and expense incurred as a result of settling lawsuits or paying damages that arise as a consequence of selling the products. For the preceding reasons, the Company is exposed to potential damages in an amount that may equal the Company s profit share derived from sale of the product.

During October 2009, the Canadian Federal Court decided in the Novopharm case that Eli Lilly s patent for Zyprexa is invalid. However, because the Company continues to sell the product to Pharmascience and there exists a possibility of Eli Lilly filing for an appeal of the Canadian Federal Court s decision, management continues to believe that the outcome of the litigation cannot be predicted.

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DR. REDDY S LABORATORIES LIMITED AND SUBSIDIARIES
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(in millions, except share and per share data)

21. Contingencies (Continued)

Environmental matter

The Indian Council for Environmental Legal Action filed a writ in 1989 under Article 32 of the Constitution of India against the Union of India and others in the Supreme Court of India for the safety of people living in the Patancheru and Bollarum areas of Medak district of Andhra Pradesh. The Company has been named in the list of polluting industries. In 1996, the Andhra Pradesh District Judge proposed that the polluting industries compensate farmers in the Patancheru, Bollarum and Jeedimetla areas for discharging effluents which damaged the farmers agricultural land. The compensation was fixed at Rs.1.30 per acre for dry land and Rs.1.70 per acre for wet land. Accordingly, the Company has paid a total compensation of Rs.3. The matter is pending in the courts and the possibility of additional liability is remote. The Company would not be able to recover the compensation paid, even if the decision of the court is in favor of the Company.

Indirect taxes related matter

During the year ended March 31, 2003, the Central Excise Authorities of India (the Authorities) issued a demand notice to a vendor of the Company regarding the assessable value of products supplied by this vendor to the Company. The Company has been named as a co-defendant in this demand notice. The Authorities demanded payment of Rs.176 from the vendor, including penalties of Rs.90. Through the same notice, the Authorities issued a penalty claim of Rs.70 against the Company. During the year ended March 31, 2005, the Authorities issued an additional notice to this vendor demanding Rs.226 from the vendor, including a penalty of Rs.51. Through the same notice, the Authorities issued a penalty claim of Rs.7 against the Company. Furthermore, during the year ended March 31, 2006, the Authorities issued an additional notice to this vendor demanding Rs.34. The Company has filed appeals against these notices. In August and September 2006, the Company attended the hearings conducted by the Customs, Excise and Service Tax Appellate Tribunal (the CESTAT) on this matter. In October 2006, the CESTAT passed an order in favor of the Company setting aside all of the above demand notices. In July 2007, the Authorities appealed against CESTAT s order in the Supreme Court. The matter is pending in the Supreme Court.

Regulatory matters

In November 2007, the Attorneys General of the State of Florida and the Commonwealth of Virginia each issued subpoenas to the Company s U.S. subsidiary, Dr. Reddy s Laboratories, Inc. (DRLI). In March 2008, the Attorney General of the State of Michigan issued a Civil Investigative Demand (CID) to DRLI. These subpoenas and the CID generally required the production of documents and information relating to the development, sales and marketing of the products ranitidine, fluoxetine and buspirone, all of which were sold by Par Pharmaceuticals Inc. (Par) pursuant to an agreement between Par and DRLI. DRLI has responded to these requests, and will continue to cooperate with the Attorneys General in these investigations if it is asked to do so.

Additionally, the Company and its affiliates are involved in other disputes, lawsuits, claims, governmental and/or regulatory inspections, inquiries, investigations and proceedings, including patent and commercial matters that arise from time to time in the ordinary course of business. The Company does not believe that there are any such pending matters that will have any material adverse effect on its financial position, results of operations or cash flows in any given accounting period.

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ITEM 2. OPERATING AND FINANCIAL REVIEW

(in millions)

The following discussion and analysis should be read in conjunction with the audited condensed consolidated interim financial statements, the related cash flow statements and notes, and the Operating and Financial Review and Prospects included in our Annual Report on Form 20-F/A for the fiscal year ended March 31, 2009, as amended by Amendment No. 1 on Form 20-F/A dated August 21, 2009, all of which is on file with the SEC (collectively, our Form 20-F) and the unaudited condensed consolidated interim financial statements contained in this report on Form 6-K and the related statement of cash flow and notes (collectively, the Financial Statements).

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 th 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 Form 20-F. Readers are cautioned not to place reliance on these forward-looking statements that speak only as of their dates.

Three months ended September 30, 2009 compared to the three months ended September 30, 2008

The following table sets forth, for the periods indicated, our consolidated revenues and gross profits by segment:

	Three months ended September 30, 2009				**Three months ended September 30, 2008**			
	Revenues	**Revenues % to total**	**Gross profit**	**Gross profit % to revenues**	**Revenues**	**Revenues % to total**	**Gross profit**	**Gross profit % to revenues**
Pharmaceutical Services and Active Ingredients	Rs. 5,375	29%	Rs. 1,925	36%	Rs. 4,828	30%	Rs. 1,422	29%
Global Generics	12,706	69%	6,700	53%	11,112	69%	6,446	58%
Proprietary Products	107	1%	81	76%	48	0%	27	55%
Others	180	1%	13	7%	163	1%	69	42%
	Rs. 18,368	**100%**	**Rs. 8,719**	**47%**	**Rs. 16,151**	**100%**	**Rs. 7,964**	**49%**

The following table sets forth, for the periods indicated, financial data as percentages of total revenues and the increase (or decrease) by item as a percentage of the amount over the comparable period in the previous year:

	Three months ended September 30,		**Percentage of Sales Three months ended September 30,**		**Percentage Increase /(Decrease)**
	2009	**2008**	**2009**	**2008**	

Revenues	Rs. 18,368	Rs. 16,151	100	100	14%
Gross profit	**8,719**	**7,964**	**47**	**49**	9%
Selling, general and administrative expenses	5,337	5,286	29	33	1%
Research and development expenses	963	825	5	5	17%
Other operating (income)/expenses	(125)	88	(1)	1	-242%
Results from operating activities	**2,544**	**1,765**	**14**	**11**	44%
Finance income/(expense), net	209	(482)	1	(3)	-143%
Share of profit of equity accounted investees	15	2	0	0	650%
Profit before income taxes	**2,768**	**1,285**	**15**	**8**	115%
Income tax (expense)/benefit, net	(595)	(232)	(3)	(1)	156%
Profit for the period	**Rs. 2,173**	**Rs. 1,053**	**12**	**7**	106%

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Revenues

Our overall revenues increased by 14% to Rs.18,368 in the three months ended September 30, 2009, from Rs.16,151 in the three months ended September 30, 2008.

Revenues from our Pharmaceutical Services and Active Ingredients segment increased by 11% to Rs.5,375 during the three months ended September 30, 2009, from Rs.4,828 during the three months ended September 30, 2008. The increase was driven by a growth in revenues from Europe by 50% which was partially offset by a decrease in the revenues from our Rest of the World markets (i.e., all the markets excluding North America, Europe, India, Russia and countries of the former Soviet Union) by 4% and India by 4%.

Revenues from our Global Generics segment increased by 14% to Rs.12,706 during the three months ended September 30, 2009, from Rs.11,112 during the three months ended September 30, 2008. The increase was driven by a growth in revenues from North America (the United States and Canada), Russia and India, partially offset by decrease in revenues from Europe.

During the three months ended September 30, 2009, we received 30% of our total revenues from North America (the United States and Canada), 26% of our revenues from Europe, 17% of our revenues from India, 13% of our revenues from Russia and other countries of the former Soviet Union and 14% of our revenues from other countries.

During the three months ended September 30, 2009, on an average basis, the Indian rupee depreciated by approximately 11% against the U.S. dollar, as compared to the average exchange rate for the three months ended September 30, 2008. This depreciation had a positive impact on our sales because of the increase in rupee realization from sales denominated in U.S. dollars.

Revenues segment analysis

Pharmaceutical Services and Active Ingredients (PSAI)

During the three months ended September 30, 2009, revenues from this segment constituted 29% of our total revenues, as compared to 30% during the three months ended September 30, 2008. Revenues in this segment increased by 11% to Rs.5,375 during the three months ended September 30, 2009, as compared to Rs.4,828 during the three months ended September 30, 2008.

During the three months ended September 30, 2009, revenues from India accounted for 12% of our revenues from this segment, as compared to 14% during the three months ended September 30, 2008. Revenues from India decreased by 4% to Rs.629 during the three months ended September 30, 2009, as compared to Rs.657 during the three months ended September 30, 2008. This decrease was primarily due to a decline in revenues from sales of losartan potassium, sparfloxacin, enrofloxacin and ramipril, which were partially offset by growth in revenues from sales of ranitidine and ciprofloxacin.

Revenues from outside India constituted 88% of our total revenues during the three months ended September 30, 2009, as compared to 86% during the three months ended September 30, 2008. Revenues from outside India increased by 14% to Rs.4,746 during the three months ended September 30, 2009, as compared to Rs.4,171 during the three months ended September 30, 2008.

Revenues in North America (the United States and Canada) increased by 5% to Rs.1,150 during the three months ended September 30, 2009, as compared to Rs.1,093 during the three months ended September 30, 2008. The increase was primarily due to growth in revenues from sales of rabeprazole sodium and levetiracetam, partially offset by a decline in sales of naproxen, montelukast and sertraline.

Revenues in Europe increased by 50% to Rs.1,761 during the three months ended September 30, 2009, as compared to Rs.1,176 during the three months ended September 30, 2008. The increase was mainly due to an increase in revenues from sales of gemcitabine, montelukast and clopidogrel premix, partially offset by a decline in revenues from sales of ibandronate sodium, ramipril and terbinafine HCl.

Revenues in our Rest of the World markets decreased by 4% to Rs.1,835 during the three months ended September 30, 2009, as compared

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to Rs.1,903 during the three months ended September 30, 2008. The decrease was primarily due to a decline in sales in South Korea, Peru and Indonesia, which was partially offset by growth in sales in Brazil, Mexico and Turkey.

Global Generics

During the three months ended September 30, 2009, revenues from this segment constituted 69.2% of our total revenues, as compared to 68.8% during the three months ended September 30, 2008. Revenues increased by 14% to Rs.12,706 during the three months ended September 30, 2009, as compared to Rs.11,112 during the three months ended September 30, 2008.

Revenues from India constituted 19.8% of our total Global Generics segment s revenues during the three months ended September 30, 2009, as compared to 20.1% during the three months ended September 30, 2008. Revenues from India increased by 13% to Rs.2,521 during the three months ended September 30, 2009, as compared to Rs.2,237 during the three months ended September 30, 2008. The increase in revenues was due to growth in sales volumes of our key brand Omez, our brand of omeprazole. This growth was partially offset by a decline in sales of Nise, our brand of nimusulide. New products launched in India accounted for Rs.166 of this segment s revenues during the three months ended September 30, 2009. Our top 10 brands (in terms of revenues generated) accounted for Rs.923 of this segment s revenues during the three months ended September 30, 2009, as compared to Rs.850 during the three months ended September 30, 2008.

Revenues from outside India constituted 80.2% of our total Global Generics segment s revenues during the three months ended September 30, 2009, as compared to 79.9% during the three months ended September 30, 2008. Revenues from outside India increased by 15% to Rs.10,186 during the three months ended September 30, 2009 from Rs.8,875 during the three months ended September 30, 2008.

Revenues in North America (the United States and Canada) increased by 37% to Rs.4,285 during the three months ended September 30, 2009, as compared to Rs.3,140 during the three months ended September 30, 2008. This increase was primarily due to growth in revenues from our new launches of sumatriptan, divalproex sodium and sprinkles. In the aggregate, new launches accounted for Rs.1,143 of this segment s revenues during the three months ended September 30, 2009. The foregoing references to new launches indicate those products which were launched between October 1, 2008 and September 30, 2009. Excluding the revenues from such new launches, our revenues from North America grew by 2% to Rs.3,142 during the three months ended September 30, 2009.

Revenues in Europe decreased by 11% to Rs.2,849 during the three months ended September 30, 2009, as compared to Rs.3,184 during the three months ended September 30, 2008. Revenues of betapharm decreased by 21%, from Rs.2,773 during the three months ended September 30, 2008 to Rs.2,195 during the three months ended September 30, 2009. This decrease was primarily on account of a decline in revenues from sales of influenza vaccines, coupled with lower prices across betapharm s product portfolio. The decline in prices primarily resulted from the commencement in June 2009 of the contracts awarded by Allgemeine Ortskrankenkasse (AOK), one of the biggest State Healthcare Insurance (SHI) funds in Germany, in its competitive bidding (or tender) process. Although our German subsidiary, betapharm, won eight products in this AOK tender. the contracts representing our key products were awarded to third parties, which impacted our sales during the three months ended September 30, 2009. In addition, the increase in sales volumes of the products that betapharm won in the tender were significantly offset by a reduction in the margins for those products.

Revenues in Russia increased by 39% to Rs.1,844 during the three months ended September 30, 2009, as compared to Rs.1,331 during the three months ended September 30, 2008. This increase was due to higher sales volumes as well as higher prices of our key brands Nise, our brand of nimesulide, Ketorol, our brand of ketorolac, Omez, our brand of omeprazole, and Ciprolet, our brand of ciprofloxacin.

Revenues from other countries of the former Soviet Union decreased by 4% to Rs.502 during the three months ended September 30, 2009, as compared to Rs.525 during the three months ended September 30, 2008. This decrease was primarily due to a decline in our revenues from Ukraine, which was partially offset by growth in our revenues from Kazakhstan, Belarus and Uzbekistan.

Revenue from other markets grew by 1% to Rs.706 during the three months ended September 30, 2009, as compared to Rs.696 during the three months ended September 30, 2008.. This decrease was primarily due to growth of revenues in Venezuela, New Zealand and South Africa.

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Gross Margin

Total gross margin as a percentage of total revenues was 47% during the three months ended September 30, 2009, as compared to 49% during the three months ended September 30, 2008. Total gross margin increased to Rs.8,719 during the three months ended September 30, 2009, as compared to Rs.7,964 during the three months ended September 30, 2008.

Pharmaceutical Services and Active Ingredients

Gross margin of this segment increased to 36% of this segment s revenues during the three months ended September 30, 2009, as compared to 29% of this segment s revenues during the three months ended September 30, 2008. The increase in gross margins was mainly due to favorable changes in the sales mix of the products in this segment s portfolio (i.e., a decrease in the proportion of sales of lower gross margin products and an increase in the proportion of sales of higher gross margin products), as well as the beneficial impact of the depreciation of the Indian rupee against the U.S. dollar.

Global Generics

Gross margin of this segment decreased to 53% of this segment s revenues during the three months ended September 30, 2009, as compared to 58% of this segment s revenues during the three months ended September 30, 2008. The decrease was mainly due to a provision of Rs.390 for slow moving inventory at our German subsidiary, betapharm. Excluding the impact of this slow moving inventory provision, the gross margins of this segment decreased to 56% during the three months ended September 30, 2009, as compared to 58% during the three months ended September 30, 2008.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of total revenues were 29% during the three months ended September 30, 2009, as compared to 33% during the three months ended September 30, 2008. Selling, general and administrative expenses increased by 1% to Rs.5,337 during the three months ended September 30, 2009, as compared to Rs.5,286 during the three months ended September 30, 2008. The increase was primarily attributable to an increase in employee cost, due to increases in head count and annual raises; an increase in marketing expenses, due to increased marketing activities for new product launches in our Proprietary Products segment; and an increase in front line management expenses and incentives.

Furthermore, amortization expenses decreased by 30% to Rs.329 during the three months ended September 30, 2009, as compared to Rs.472 during the three months ended September 30, 2008. The decrease was primarily due to reduced amortization base after impairment of betapharm s intangibles in March 2009 partially offset by an increase in amortization charges resulting from our re-assessment of our trademark/brand beta as a finite life intangible asset. Such re-assessment resulted from the diminishing importance of our trademark/brand beta after the German market s shift to a non-branded price competition model.

Research and development expenses

Research and development costs increased by 17% to Rs.963 during the three months ended September 30, 2009, as compared to Rs.825 during the three months ended September 30, 2008. As a percentage of revenues, research and development expenditures accounted for 5% of total revenues in the three months ended September 30, 2009, the same percentage as was applicable during the three months ended September 30, 2008. This increase in research and development expenditures was primarily attributable to increases in laboratory expenses and bio-studies costs and increased research and development activities undertaken during the three months ended September 30, 2009.

Other (income)/expense, net

During the three months ended September 30, 2009, we recorded net other income of Rs.125, as compared to net other expense of Rs.88 during the three months ended September 30, 2008. The increase was largely due to a provision of Rs.230 that was recorded in the three months ended September 30, 2008 towards the settlement of a patent infringement damage claim by Eli Lilly relating to its Olanzapine patent in Germany.

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Results from operating activities

As a result of the foregoing, our results from operating activities increased to Rs.2,544 during the three months ended September 30, 2009, as compared to a profit of Rs.1,765 during the three months ended September 30, 2008.

Finance income/(expense), net

During the three months ended September 30, 2009, our net finance income was Rs.209, as compared to net finance expense of Rs.482 during the three months ended September 30, 2008.

During the three months ended September 30, 2009, our finance expense, excluding foreign exchange gain/loss, decreased by 81% to Rs.36, as compared to Rs.186 during the three months ended September 30, 2008. The decrease was attributable to a decline in our interest expense by 70% to Rs.85, as compared to Rs.278 during the three months ended September 30, 2008. Such decline was primarily due to a decrease in interest rates on our long term borrowings.

Foreign exchange gain was Rs.245 for the three months ended September 30, 2009, as compared to a foreign exchange loss of Rs.296 for the three months ended September 30, 2008. This increase was primarily due to the following:

Depreciation of the Indian rupee against the U.S. dollar by Rs.4.6, from an average of Rs.43.78 during the three months ended September 30, 2008 to an average of Rs.48.40 during the three months ended September 30, 2009.

In the three months ended September 30, 2008, we recorded a loss on our short U.S.$/INR derivative contracts, options, packing credit in foreign currency and creditors, which was partly offset by a gain on translation and realization of debtors. In contrast, during the three months ended September 30, 2009, we recorded a gain on short US.$/INR derivative contracts, gain on translation and realization of debtors, which was partially offset by translation loss on outstanding packing credit, long term loans and payments to creditors, in each case denominated in foreign currencies.

Profit before income taxes

As a result of the foregoing, profit before income taxes increased to Rs.2,768 during the three months ended September 30, 2009, as compared to profit of Rs.1,285 during the three months ended September 30, 2008.

Income tax expense

Income tax expense was Rs.595 during the three months ended September 30, 2009, as compared to an income tax expense of Rs.232 during the three months ended September 30, 2008.

Income tax expenses are recognized based on our best estimate of the average annual income tax rate for the financial year applied to the pre-tax income of the interim period. Our consolidated effective tax rate for the three months ended September 30, 2009 and September 30, 2008 was 21.50% and 18.05%, respectively. The increase in the effective tax rate for the three months ended September 30, 2009 compared to the three months ended September 30, 2008 was primarily attributable to the following:

An increase in the projected annual profits in jurisdictions having higher tax rates for the current fiscal year ending March 31, 2010.

During the three months ended September 30, 2008, the effective tax rate included a tax benefit that arose in our German operations, largely on account of a provision for damages in our olanzapine litigation with Eli Lilly. The effective tax rate during the six months ended September 30, 2009 did not enjoy any such tax benefit.

Profit for the period

As a result of the above, our net income increased to Rs.2,173 during the three months ended September 30, 2009 as compared to profit of Rs.1,053 during the three months ended September 30, 2008.

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ITEM 3. LIQUIDITY AND CAPITAL RESOURCES

We have primarily financed our operations through cash flows generated from operations and short term loans and borrowings for working capital. Our principal liquidity and capital needs are for making investments, the purchase of property, plant and equipment, and regular business operations.

As part of our growth strategy, we continue to review opportunities to acquire companies, complementary technologies or product rights. To the extent that any such acquisitions involve cash payments, rather than the issuance of shares, we may need to borrow from banks or raise additional funds from the debt or equity markets.

The following table summarizes our statements of cash flows for the periods presented:

	Six months ended September 30,		
	2009	2009	2008
	(Rs. in millions, U.S.$ in millions)		
Net cash from/(used in):			
Operating activities	Rs. 9,036	U.S.$ 188	Rs. (307)
Investing activities	(1,229)	(26)	(2,517)
Financing activities	(6,777)	(141)	(775)
Net increase/(decrease) in cash and cash equivalents	Rs. 1,030	U.S.$ 21	Rs. (3,599)

Operating Activities

The net result of operating activities was a cash inflow of Rs.9,036 for the six months ended September 30, 2009, as compared to a cash outflow of Rs.307 for the six months ended September 30, 2008. The net cash provided by operating activities increased significantly during the current period primarily on account of:

an increase in net profits for the period by Rs.2,454, primarily due to the launch of Sumatriptan, our authorized generic version of Imitrex®, and increased revenue from Russia and other countries of the former Soviet Union; and

a decrease in the number of days outstanding of our receivables, due to our increased customer collection efforts.

Investing Activities

Our investing activities resulted in a net cash outflow of Rs.1,229 for the six months ended September 30, 2009, as compared to a net cash outflow of Rs.2,517 for the six months ended September 30, 2008. This decrease in cash outflow from investing activities was primarily due to the fact that cash outflow during the six months ended September 30, 2008 included cash used by us during that period to acquire the Dow Pharma Small Molecules business in Mirfield and Cambridge in the United Kingdom from The Dow Chemical Company, BASF s manufacturing facility in Louisiana, United States and Jet Generici Srl, a company engaged in the sale of generic finished dosages in Italy.

Financing Activities

Our financing activities resulted in a net cash outflow of Rs.6,777 for the six months ended September 30, 2009, as compared to a net cash outflow of Rs.775 for the six months ended September 30, 2008. The increase in net cash outflow from financing activities was primarily due to:

repayment of short term borrowings during the six months ended September 30, 2009, which were borrowed to fund our short term working capital requirements;

repayment of long term debt in accordance with agreed repayment terms with lenders; and

higher dividend payments to our shareholders as compared to the six month period ended September 30, 2008.

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The following table provides a list of our principal debts outstanding as of September 30, 2009:

Debt	Principal Amount (Rs. in millions, U.S.$/EURO in millions)		Interest Rate
Short-term borrowings from banks (for working capital)	Rs. 2,199	U.S.$ 46	Rupee borrowings-7.52% Foreign currency borrowings LIBOR+ 100 bps
Long term loans	Rs. 12,469	U.S.$ 9	Rupee borrowings-2.00% Foreign currency borrowings LIBOR + 70 bps
		EURO 171	EURIBOR + 70 bps

ITEM 4. RECENT DEVELOPMENTS

During the three months ended September 30, 2009, we paid an undisclosed sum to Natco Pharma Limited, India (Natco) as an up-front amount pursuant to a collaboration agreement previously signed with Natco for the development, manufacture and supply of a portfolio of value-added generic oncology drugs. The products selected under this collaboration include oral and injectable innovator products currently in the marketplace that have significant sales worldwide. The collaboration agreement provides that we and Natco will jointly develop these products for registration and commercialization worldwide, including the regulated markets of the United States and the European Union.

During the month of September 2009, we voluntarily recalled one lot in each of four generic products in the United States as a precautionary measure because the specific affected lots may have contained a small number of oversized tablets. This voluntary recall was conducted with the full knowledge of the U.S. FDA. We responded to the U.S. FDA investigations that resulted, and have initiated various corrective and preventive measures at our manufacturing facility in order to avoid such instances and complaints in the future.

During the month of September 2009, we entered into a settlement agreement with Novartis for generic versions of Novartis Lotrel® tablets, a combination of amlodipine besylate and benazepril hydrochloride, which involves a stipulation of dismissal of the lawsuits in the United States relating to our ANDA for these tablets. Under the terms of the settlement agreement, we will launch the generic version of the tablets before the expiration of the Orange Book listed patents applicable to the product. Lotrel® tablets, which are indicated for the treatment of hypertension, had U.S. sales of approximately U.S.$386 millions for the 12 month period ended December 2008, according to IMS Health, a company which provides information on the pharmaceutical industry, in its Moving Annual Total report for the year ended December 2008.

During the month of September 2009, we entered into an agreement for the purchase of an ANDA on fenofibrate capsules 43 mg and 130 mg (brand name Antara®) with Lupin Limited, India. As part of this deal, we acquired the rights to launch the product before the expiration of the Orange Book listed patents of the product. Antara® capsules are indicated for the adjunct treatment of hypercholesterolemia (high blood cholesterol) and hyper-triglyceridemia (high triglycerides) in combination with diet. Antara® capsules had U.S. sales of approximately U.S.$70 million for the 12 month period ended December 2008, according to IMS Health in its Moving Annual Total report for the year ended December 2008.

New tenders submitted by us in Germany

On September 15, 2009, GWQ ServicePlus AG, a service provider negotiating on behalf of 36 health insurance funds in Germany, announced a tender for pharmaceutical products. We submitted our bids for this tender and are currently awaiting the results.

On July 15, 2009, Techniker Krankenkasse, one of the largest health insurance funds in Germany, announced a tender for pharmaceutical products . We submitted our bids for this tender and are currently awaiting the results.

On August 11, 2009, IKK Gesund Plus, a German health insurance company, acting on its own behalf and on behalf of IKK Baden-Württemberg and Hesse, IKK Saxony and IKK Thuringia, announced a tender for pharmaceutical products. We submitted our bids for this tender and received preliminary information that we are a successful bidder for four product lots (simavastatin, sertraline, hydrochlorothiaziad and metoprolol).

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On July 28, 2009, Spectrum K, a joint enterprise of the companies health insurance funds and their state associations, acting on behalf of 79 individual company-based funds (called BKKs) announced a tender for pharmaceutical products. We received preliminary information that we are a successful bidder in sixteen product lots.

ITEM 5. TREND INFORMATION

Global Generics

The United States, Germany, India, Russia and other countries of former Soviet Union are the most significant key strategic markets for our Global Generics business, accounting for more than 90% of the revenues of this segment for the six months ended September 30, 2009. In all of these markets, excluding Germany, we continue to grow our revenues as a result of our product franchise and customer and distributor relationships built over the years.

In the United States, our revenues for the six months ended September 30, 2009 increased by 73%, as compared to our revenues for the six months ended September 30, 2008, led by volume growth of existing products and new products launches. We are also looking at new channels of growth in the coming years through our over-the-counter business and government business to further increase the scale of our generic pharmaceuticals business in the United States. In the next few years, a large number of U.S. pharmaceutical related patents are set to expire and we have positioned our pipeline and infrastructure capabilities to address a substantial portion of these expirations. We intend to expand our portfolio over the next few years by adding solid dosage forms, as well as alternate dosage forms, and by complementing our internal product development effort through business alliances. We intend to broaden not only our customer base but also our products, by focusing more on difficult-to-make and limited competition products. In the past several years, we have settled multiple Paragraph IV lawsuits under the Hatch-Waxman Act, and these settlements will result in guaranteed product launches. These settlements, together with any 180-day exclusivity periods that we may obtain under our other Paragraph IV filings and with our focus on difficult-to-make generic products, are part of our strategy to achieve the goal of at least one opportunity with limited competition every year for the next few years. We expect that these product launches will augment our growing base revenues. As of September 30, 2009, we had filed a total of 140 ANDAs with the U.S. FDA, of which 61 were pending approval.

In Germany, starting in June 2009, product supplies commenced under the contracts awarded by AOK in its competitive bidding (or tender) process. Our revenue from Germany for the six months ended September 30, 2009 was Euros 56 million, representing a 31% decline over the six months ended September 30, 2008 due to decreased sales volumes as a result of contracts which were awarded to third parties in the AOK tender. For the 8 products that we won in the AOK tender, we have experienced a significant increase in volumes and reduction in margins, while we have experienced a fall in the sales volumes of our other products in Germany. Recently, apart from the AOK announcing another tender, many other SHI funds have announced tenders. We believe that ongoing health care reforms and changing market dynamics, in terms of a move to a commoditized market environment, will continue to cause pressure on price realization for our product portfolio in Germany, leading to a business model of high volumes and low margins . To a major extent, we have realigned our organizational structure and cost base in betapharm to remain competitive in this emerging scenario. We expect continuing challenges in this market as we continue to see a significant decline in prices, and the trend in the balance of the market moving to a tender based model. This will likely cause our revenues and profits in Germany for the fiscal year ending March 31, 2010 to be significantly lower than the fiscal year ended March 31, 2009.

In India, Operations Research Group International Medical Statistics (ORG IMS) has noted that the Indian pharmaceutical market is projected to grow at 12-14% per annum between 2008 and 2020, achieving a terminal market value of U.S.$30 billion. The major growth influencers will be population dynamics, high disease prevalence, increased health care access, changing health care models and greater capacity to spend. According to ORG IMS in its April-September 2009 report, the Indian pharmaceutical market continues to be highly fragmented and dominated by Indian companies. As per this report, the Indian pharmaceutical industry recorded a growth in value (defined in terms of revenues) of 13% over the previous year while we recorded a growth of 16% in revenues from sales in India. This higher than industry growth was primarily due to revenues from new product launches in India, as well as our initiatives in supply chain excellence. Six of our brands continue to be ranked among the top 300 brands in India in terms of sales. Our leading brand Omez, including the umbrella of all products launched under the Omez brand, reached sales of approximately Rs.1 billion for the year ended March 31, 2009. Also contributing to the attractiveness

of the Indian market is our growing and niche presence in dermatology, dental, urology and oncology therapeutic areas,

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especially our biologics products in the oncology area. In the dermatology segment, we have created a dedicated team under a new division named Asthetix to cater to the high potential cosmetic market.

In Russia, the ongoing financial crisis has impacted liquidity in the market. We continue to maintain our focus on receivables and credit terms. According to Pharmexpert, a market research firm, in its April-September 2009 report, the secondary prescription sales trend for the Russian generic pharmaceuticals market as compared to the same period last year indicates a decline of 5% in U.S. dollar value and growth of 26% in rouble value terms. During the same period, our secondary sales grew by 10% in U.S. dollar value terms and 46% in rouble value terms. As per the same report, we were ranked No. 13 in sales in Russia, with a market share of 1.5%. Our top four brands Omez, Nise, Ketorol and Ciprolet continue to be leaders in their respective segments in Russia.

Pharmaceutical Services and Active Ingredients

In this segment, we are focused on acquiring new customers and increasing our level of engagement with existing customers in key global markets, by marketing additional products from our product portfolio. We are also focused on identifying unique product opportunities in key markets and protecting them through patenting strategies. In this segment, we also market process development and manufacturing services to customers, primarily consisting of innovator pharmaceutical and biotechnology companies, with an objective to become their preferred partner of choice. Our focus is to leverage our skills in process development, analytical development, formulation development and Current Good Manufacturing Practice (cGMP) manufacturing to serve the customer s needs. Changes in the business model for our services business are beginning to take shape, and we are switching to a more product based service offering based on our rich pipeline of active pharmaceutical ingredients combined with our intellectual property expertise.

For this segment, our revenues for the six months ended September 30, 2009 increased by approximately 9%. With the reversal of the recessionary trends in some of the unregulated markets, we are beginning to see traction for this business in these markets. In the regulated markets, we have been able to create a strong pipeline of launches and key customers. The trend in our order book, which had weakened in the second half of the previous year, continues to show improvement from the previous quarter.

Our portfolio of drug master filings (DMFs) and intellectual property expertise provide us a platform to become a partner of choice to innovators and large pharmaceutical companies. As of September 30, 2009, we had a pipeline of 361 DMFs, of which 151 were in the United States. With patent expirations in several markets in the next few years, we intend to promote growth in the coming years by leveraging our strong intellectual property expertise and DMF pipeline. The success of our products in our key markets is contingent upon the extent of competition in the generics market, and we anticipate that such competition will continue to be significant.

Proprietary Products

Our investments in research and development of new chemical entities (NCEs) have been consistently focused towards developing promising therapeutics. Strategically, we continue to seek licensing and development arrangements with third parties to further develop our pipeline products. As part of our research program, we also pursue collaborations with leading institutions and laboratories all over the world. Currently, one of our NCEs is going through Phase III clinical trials. Some of our compounds are being developed in partnership with our partners, and the others are being developed in-house. As we make progress in advancing our pipeline through various stages of clinical development, we are also building capabilities in drug development. We believe this will help to enhance the value of our NCE assets. We expect to further complement our internal research and development efforts by pursuing strategic partnerships and alliances in our key focus areas.

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ITEM 6. EXHIBITS

Exhibit Number	Description of Exhibits
99.1	Independent Auditors Report on Review of Unaudited Condensed Consolidated Interim Financial Statements

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DR. REDDY S LABORATORIES LIMITED
(Registrant)

Date: November 20, 2009

By: /s/ V.S. Suresh
Name: V.S. Suresh
Title: Company Secretary