DR REDDYS LABORATORIES LTD
Form 424B3
November 13, 2006

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The information in this preliminary prospectus is not complete and may be changed. This preliminary prospectus is not an offer to sell these securities and it is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-138608

SUBJECT TO COMPLETION, DATED NOVEMBER 13, 2006

PRELIMINARY PROSPECTUS

SUPPLEMENT TO PROSPECTUS DATED NOVEMBER 13, 2006

Up to 13,500,000 American Depositary Shares

Dr. Reddy s Laboratories Limited
(incorporated under the laws of India)
Representing up to 13,500,000 Equity Shares

We are offering up to 13,500,000 equity shares in the form of American Depositary Shares or ADSs. Each ADS offered represents one equity share of Dr. Reddy s Laboratories Limited.

Our outstanding ADSs are traded on the New York Stock Exchange under the symbol RDY. The last reported sales price of our ADSs on the New York Stock Exchange on November 9, 2006 was U.S.$17.22 per ADS. Our equity shares are traded in India on the National Stock Exchange of India Limited, or the NSE, and the Bombay Stock Exchange Limited, or the BSE. The closing price for our equity shares on the NSE and the BSE on November 9, 2006 was Rs.773.35 (U.S.$17.39) and Rs.773.30 (U.S.$17.39), respectively, translated at the noon buying rate of Rs.44.46 per U.S.$1.00 on November 9, 2006.

Investing in our ADSs involves risks. See Risk Factors beginning on page S-18 to read about factors you should consider before buying our ADSs.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Public offering price	U.S.$	U.S.$
Underwriting discounts and commissions	U.S.$	U.S.$

Proceeds to us before expenses	U.S.$	U.S.$

We have granted to the underwriters an option to purchase up to an additional 1,500,000 ADSs to cover over-allotments at the public offering price less underwriting discounts and commissions.

The underwriters expect to deliver the ADSs to purchasers on , 2006.

Joint Book-runners
(in alphabetical order)

Citigroup **Merrill Lynch & Co.**

The date of this prospectus supplement is , 2006.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on the prospectus supplement. We have not, and the underwriters have not, authorized anyone to provide you with different information. We are not, and the underwriters are not, making an offer of these securities in any state where the offer or sale is not permitted. You should not assume that the information provided in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement and in the accompanying prospectus is accurate as of any date other than their respective dates. Our business, financial condition, results of operations and prospects may have changed since those dates.

In this document, all references to Indian rupees, rupees and Rs. are to the legal currency of India and all references to U.S. dollars, dollars and U.S.$ are to the legal currency of the United States.

Except as otherwise stated in this prospectus, all translations from Indian rupees to U.S. dollars, for the year ended March 31, 2006, three months ended June 30, 2006 and three and six months ended September 30, 2006, contained in this prospectus supplement are based on the noon buying rate in the City of New York on March 31, 2006, June 30, 2006 and September 30, 2006, respectively, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2006, June 30, 2006 and September 30, 2006 was Rs.44.48 per U.S.$1.00, Rs.45.87 per U.S.$1.00 and Rs.45.95 per U.S.$1.00, respectively. The exchange rates used in this prospectus supplement for translations of Indian rupee amounts into U.S. dollars for convenience purposes differ from the actual rates used in the preparation of our consolidated financial statements, and U.S. dollar amounts used in this prospectus supplement differ from the actual U.S. dollar amounts that were translated into Indian rupees in the financial statements.

Our financial statements are presented in Indian rupees and are prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. In this prospectus supplement, any discrepancies in any table between totals and the sums of the amounts listed are a result of rounding. In this prospectus supplement, references to a particular fiscal year are to the twelve months ended March 31 of that year.

WHERE YOU CAN FIND MORE INFORMATION

We file annual and other reports with the Securities and Exchange Commission, or SEC. Our SEC filings are available to the public from the SEC s web site at http://www.sec.gov. You may also read and copy any document we file at the SEC s public reference room in Washington, D.C. located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of any document we file at prescribed rates by writing to the Public Reference Section of the Securities and Exchange Commission at that address. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and does not contain all of the information that you should consider before investing in our ADSs. You should read this entire prospectus supplement and accompanying prospectus, including Risk Factors and the consolidated financial statements and related notes, before making an investment decision. Unless otherwise specifically stated, the information in this prospectus supplement does not take into account the possible purchase of additional ADSs by the underwriters pursuant to the underwriters over-allotment option. This prospectus supplement and accompanying prospectus includes forward-looking statements that involve risks and uncertainties. See Forward-Looking Statements.

Overview

We are an emerging global pharmaceutical company with proven research capabilities. We produce active pharmaceutical ingredients and intermediates, finished dosage forms and biotechnology products and market them globally, with a focus on India, the United States, Europe and Russia. We are vertically integrated and use our active pharmaceutical ingredients and intermediates in our own finished dosage products. We conduct basic research in the areas of cancer, cardiovascular disease, inflammation and bacterial infection.

Our total revenues for the year ended March 31, 2006 were Rs.24,267.0 million (U.S.$545.6 million). We derived 34.1% of these revenues from sales in India, 16.4% from the United States and Canada (North America), 14.7% from Russia and other countries of the former Soviet Union, 17.8% from Europe and 17.0% from other countries. Our net income for the year ended March 31, 2006 was Rs.1,628.9 million (U.S.$36.6 million).

Our total revenues for the three months ended June 30, 2006 were Rs.14,049.4 million (U.S.$306.3 million). For the three months ended June 30, 2006, we received 34.6% of our revenues from North America (United States and Canada), 17.0% of our revenues from India, 10.4% of our revenues from Russia and other former Soviet Union countries, 23.1% of our revenues from Europe and 14.9% of our revenues from other countries. Our net income for the three months ended June 30, 2006 was Rs.1,397.6 million (U.S.$30.5 million).

Our total revenues for the three months ended June 30, 2005 were Rs.5,591.4 million (U.S.$121.9 million). In the three months ended June 30, 2005, we received 11.8% of our revenues from the United States and Canada, 37.3% from India, 18.0% from Russia and other former Soviet Union countries, 18.5% from Europe and 14.5% from other countries. Our net income for three months ended June 30, 2005 was Rs.347.3 million (U.S.$8 million).

Our Strategy

Our vision is to build a discovery-led global pharmaceutical company, with a strong pipeline of generics as well as innovative products. Our strategy to achieve this vision is as follows:

Our core businesses of active pharmaceutical ingredients and intermediates and formulations are well established with a track record of growth and profitability. We are focused on cost competitiveness and improving our position in existing markets and expanding into selected new markets in an effort to continue this growth and profitability.

In our global generics business, we are building a pipeline of products that will help us drive growth in the medium-term in the United States and Europe. We are focusing on key markets in Europe, including Germany, Spain, Italy, France and Poland in order to build a dominant presence in these markets.

We are also actively pursuing external business development opportunities to supplement our internal growth initiatives, including acquisitions and alliances.

We are also focused on positioning our custom pharmaceutical services business as partner of choice for the strategic outsourcing needs of innovator pharmaceutical companies.

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In addition, we are focusing our investments on innovation led businesses, including drug discovery with a goal of building our drug discovery pipeline, and our most recent business focus, specialty pharmaceuticals, which is currently in the research and development phase. These businesses, while being investment intensive and having long lead times, have the potential to provide significant growth as well as sustained revenues and profitability for much longer periods due to patent protected franchises.

Our Competitive Strengths

We believe that our principal competitive strengths include the following:

Global presence. We have established sales and marketing organizations in key pharmaceutical markets, including the United States, India, Germany, Russia, the United Kingdom, South Africa, Brazil and China, with a global field force of more than 2,000 personnel. We operate 13 manufacturing facilities in three countries. We believe this global presence is one of our most important strengths in part because a substantial barrier to growth for generics companies is establishing the requisite sales and marketing infrastructure in new markets. Our products are sold in over 40 countries, with our key markets located in the United States, India, Russia, and Europe and an increasing presence in the other key markets. We believe this geographical diversification provides us with an advantage over other leading generics companies and helps to reduce our dependence on any one market or region as well as diminishes the impact of downturns in a particular market or region.

Research and Development Expertise. Our proven capabilities and cost advantage in research and development allow us to bring to market a broad array of pharmaceutical products. With over 1,300 research and development staff, we focus on developing active pharmaceutical ingredients and intermediates, or APIs, finished dosages, biogenerics, specialty products and new chemical entities, or NCEs. Our strong process chemistry skills, formulation development capabilities, regulatory and intellectual property expertise are well integrated creating a strong global product development platform. We are leveraging our strengths to create a strong product pipeline, including products with differentiation. We are also leveraging our strengths in discovery research to build a pipeline of NCEs addressing unmet medical needs in the areas of cardiovascular and metabolic disorders.

Vertically integrated operations. The vertical integration of our operations enables us to sustain price competitiveness in our major markets. We are able to keep our manufacturing costs lower by taking advantage of our in-house production of active pharmaceutical ingredients, the key building blocks for producing finished dosages, which supply a majority of our production requirements. In addition, most of our manufacturing facilities are located in India, providing access to cost efficient manufacturing operations.

Broad portfolio and large pipeline. A broad and robust pipeline is key to long-term profitable growth. We have made and continue to make significant investments in building a global pipeline to address the market opportunities in both the global generics industry as well as our innovation driven drug discovery and specialty pharmaceuticals segments. As of September 30, 2006, we had 83 abbreviated new drug applications, or ANDAs filed with the United States Food and Drug Administration, or U.S. FDA, of which 27 had been approved and 56 were pending approval, which according to International Medical Statistics, or IMS, Moving Annual Total, or MAT, data dated December 2005 relate to brand name drugs having aggregate sales in the United States of approximately U.S.$61 billion. Of the 56 ANDAs pending approval, 33 have been filed with a Paragraph IV certification. As of September 30, 2006, we had a pipeline of 86 drug master files, or DMFs, in the United States and 42 DMFs in Europe. As of September 30, 2006, we had 9 NCEs in various stages of development including 5 in clinical development. As of September 30, 2006, we also had 10 biogenerics products in various stages of development.

Management strength and vision. We have assembled a strong and experienced management team with global business and technical expertise. Management s experience and vision will enable us to become a discovery-led global pharmaceutical company.

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Recent Developments

Our revenues for the three months ended September 30, 2006 were Rs.20,038.5 million (U.S.$436.1 million). Net income for the three months ended September 30, 2006 was Rs.2,797.7 million (U.S.$60.9 million). Our revenues for six months ended September 30, 2006 were Rs.31,088.0 million (U.S.$741.8 million). Net income for the six months ended September 30, 2006 was Rs.4,195.3 million (U.S.$91.3 million).

Below is a summary of our unaudited financial and operational performance for the three months ended September 30, 2006 and September 30, 2005.

Results for three months ended September 30, 2006

	Three Months Ended September 30, 2006			Three Months Ended September 30, 2005			
	(Rs.)	Convenience Translation Into U.S.$	%(1)	(Rs.)	Convenience Translation Into U.S.$	%(1)	Growth %(2)
	In millions (except per share data)			In millions (except per share data)			
Total revenues	20,038.5	436.1	100.0	5,803.7	126.3	100.0	245.3
Cost of revenues	11,750.3	255.7	58.6	2,806.9	61.1	48.4	318.6
Gross profit	8,288.2	180.4	41.4	2,996.8	65.2	51.6	176.6
Selling, general and administrative expenses	3,667.5	79.8	18.3	1,766.7	38.4	30.4	107.6
Research and development expenses, net	401.5	8.7	2.0	443.5	9.7	7.6	(9.5)
Amortization expenses	402.4	8.8	2.0	76.4	1.7	1.3	426.7
Other operating (income)/expenses net	(1.8)	0.0	0.0	23.9	0.5	0.4	
Operating income before foreign exchange loss/(gain)	3,818.6	83.1	19.1	686.3	14.9	11.8	456.4
Foreign exchange loss/ (gain)	(54.8)	(1.2)	(0.3)	13.0	0.3	0.2	35.4
Operating income	3,873.4	84.3	19.3	673.3	14.7	11.6	475.3
Equity in loss of affiliates	21.4	0.5	0.1	15.8	0.3	0.3	
Other expenses/(income) net	321.2	7.0	1.6	(191.2)	(4.2)	(3.3)	
Income before income taxes and minority interest	3,530.8	76.8	17.6	848.7	18.5	14.6	316.0
Income tax (benefit)/expense	737.1	16.0	3.7	(39.5)	(0.9)	(0.7)	
Minority interest	4.0	0.1	0.0	1.4	0.0	0.0	
Net income	2,797.7	60.9	14.0	889.6	19.4	15.3	214.5
	18.23			5.81			

Basic earnings per share (Rs.)		
Diluted earnings per share (Rs.)	18.15	5.81

(1) As a percentage of our total revenues.

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

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Revenue by segment

	Three Months Ended September 30, 2006			Three Months Ended September 30, 2005			
	Convenience Translation Into			Convenience Translation Into			
	(Rs.)	U.S.$	%(1)	(Rs.)	U.S.$	%(1)	Growth %(2)
	In millions			In millions			
Active pharmaceutical ingredients and intermediates	2,905.9	63.2	14.5	2,130.3	46.4	36.7	36.4
India	501.6	10.9	17.3(3)	579.0	12.6	27.2(3)	(13.4)
Outside India	2,404.3	52.3	82.7(3)	1,551.3	33.8	72.8(3)	55.0
Formulations	3,055.7	66.5	15.3	2,576.0	56.1	44.4	18.6
India	1,743.2	37.9	57.0(4)	1,507.5	32.8	58.5(4)	15.6
Outside India	1,312.5	28.6	43.0(4)	1,068.5	23.3	41.5(4)	22.8
Generics	12,112.5	263.6	60.4	772.8	16.8	13.3	1,467.2
Critical care and biotechnology	226.9	4.9	1.1	203.0	4.4	3.5	11.8
Custom pharmaceutical services	1,668.1	36.3	8.3	121.6	2.6	2.1	1,271.8
Others	69.4	1.5	0.4	0.0	0.0	0.0	
Total	20,038.5	436.1	100.0	5,803.7	126.3	100.0	245.3

(1) As a percentage of our total revenues.

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

(3) As a percentage of our revenues from active pharmaceutical ingredients and intermediates segment.

(4) As a percentage of our revenues from formulations segment.

Revenue by geography

	Three Months Ended September 30, 2006		Three Months Ended September 30, 2005	
	Convenience Translation Into		Convenience Translation Into	

	(Rs.)	U.S.$	%(1)	(Rs.)	U.S.$	%(1)	Growth %(2)
	In millions			In millions			
India	2,429.7	52.9	12.1	2,216.1	48.2	38.2	9.6
North America	10,195.6	221.9	50.9	878.8	19.1	15.1	1,060.2
Russia and other countries of the former Soviet Union	1,023.9	22.3	5.1	890.7	19.4	15.4	15.0
Europe	3,848.0	83.7	19.2	873.1	19.0	15.0	340.7
Others	2,541.3	55.3	12.7	945.0	20.6	16.3	168.9
Total	20,038.5	436.1	100.0	5,803.7	126.3	100.0	245.3

(1) As a percentage of our total revenues.

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

Revenues were Rs.20,038.5 million for the three months ended September 30, 2006 as compared to Rs.5,803.7 million for the three months ended September 30, 2005, representing an increase of 245.3%.

Revenues from markets outside India increased by 390.8% to Rs.17,608.8 million for the three months ended September 30, 2006 as compared to the three months ended September 30, 2005.

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Markets outside India contributed 87.9% to total revenues for the three months ended September 30, 2006 as compared to 61.8% for the three months ended September 30, 2005.

Revenues from authorized generic products contributed 39.0% whereas revenues from acquisition of beta Holding GmbH, or betapharm and Industrias Quimicas Falcon de Mexico, S.A. de C.V., or Falcon businesses and products acquired in Spain contributed 20.0% of the total revenues for the three months ended September 30, 2006.

Revenues excluding contribution from authorized generic products, business and product acquisitions increased by 41.1% to Rs.8,229.9 million for the three months ended September 30, 2006 from Rs.5,803.7 million for the three months ended September 30, 2005.

Revenues in our active pharmaceutical ingredients and intermediates business increased by 36.4% to Rs.2,905.9 million for the three months ended September 30, 2006 from Rs.2,130.3 million for the three months ended September 30, 2005 primarily driven by sales of sertraline.

Revenues in our branded formulations business increased by 18.6% to Rs.3,055.7 million for the three months ended September 30, 2006 from Rs.2,576.0 million for the three months ended September 30, 2005 driven by growth across key countries as mentioned below.

Revenues outside India increased by 22.8% for the three months ended September 30, 2006 to Rs.1,312.5 million as compared to Rs.1,068.5 million for the three months ended September 30, 2005, driven by growth in Russia and other countries of the former Soviet Union.

Revenues from India increased by 15.6% for the three months ended September 30, 2006 to Rs.1,743.2 million as compared to Rs.1,507.5 million for the three months ended September 30, 2005, driven by growth in key brands. As per ORG IMS August MAT figures, our volume growth was 17% as compared to industry average volume growth of 15% and our value growth tracked industry growth.

Revenues in our generics segment were Rs.12,112.5 million for the three months ended September 30, 2006 as compared to Rs.772.8 million for the three months ended September 30, 2005.

Revenues in our North American generics business increased to Rs.9,082.3 million for the three months ended September 30, 2006 as compared to Rs.299.4 million for the three months ended September 30, 2005. This growth was primarily driven by:

Combined revenues of Rs.7,808.0 million from sales of simvastatin and finasteride. Both of these products were launched as authorized generic versions of Merck s Zocor® and Proscar®, respectively, in June 2006. Sales of these products contributed 39.0% to total revenues for the three months ended September 30, 2006.

Excluding these authorized generics, growth in North America was primarily driven by sales of fexofenadine, which contributed revenues of Rs.806.7 million for the three months ended September 30, 2006.

Revenues in our European generics business were Rs.3,026.2 million for the three months ended September 30, 2006 as compared to Rs.473.4 million for the three months ended September 30, 2005.

Revenues from the acquisition of betapharm in Germany were Rs.2,554.5 million for the three months ended September 30, 2006 as compared to revenues of Rs.1,997.6 million for the three months ended June 30, 2006. The gross profit margin at betapharm for the three months ended September 30, 2006 was 57.9% as compared to 52.5% for the three months ended June 30, 2006. betapharm was acquired by us on March 3, 2006 and accordingly, the corresponding previous quarter ended September 30, 2005 did not have any revenues from betapharm.

Excluding contributions from business and products acquisitions in betapharm and Spain, revenues in the Europe declined to Rs.454.8 million for the three months ended September 30, 2006 from Rs.473.4 million for the three months ended September 30, 2005 primarily on account of a decline in

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price of omeprazole and amlopidine maleate in the United Kingdom. Revenues from products acquired in Spain contributed Rs.16.9 million for the three months ended September 30, 2006.

Revenues from our custom pharmaceutical services business increased to Rs.1,668.1 million for the three months ended September 30, 2006 from Rs.121.6 million for the three months ended September 30, 2005.

Revenues from the acquired Falcon business in Mexico were Rs.1,429.2 million for the three months ended September 30, 2006 as compared to Rs.1,241.0 million for the three months ended June 30, 2006. Falcon was acquired by us on December 30, 2005 and accordingly, the corresponding previous quarter ended September 30, 2005 did not have any revenues from Falcon.

Excluding revenues from the acquired Falcon business, revenues increased from Rs.121.6 million for the three months ended September 30, 2005 to Rs.238.9 million for the three months ended September 30, 2006, driven by growth in our customer base and their product portfolio.

Active Pharmaceutical Ingredients and Intermediates (APIs)

API geographic mix

	Three Months Ended September 30, 2006			Three Months Ended September 30, 2005			
	(Rs.)	Convenience Translation Into U.S.$	%(1)	(Rs.)	Convenience Translation Into U.S.$	%(1)	Growth %(2)
	In millions			In millions			
North America	437.5	9.5	15.0	489.9	10.7	23.0	(10.7)
India	501.6	10.9	17.3	578.9	12.6	27.2	(13.4)
Europe	535.6	11.7	18.4	337.6	7.3	15.8	58.6
Others	1,431.2	31.1	49.3	723.9	15.8	34.0	97.7
Total	2,905.9	63.2	100.0	2,130.3	46.4	100.0	36.4

(1) Refers to our revenues from API sales in the applicable geography expressed as a percentage of our total revenues from API sales.

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

Revenues were Rs.2,905.9 million for the three months ended September 30, 2006 as compared to Rs.2,130.3 million for the three months ended September 30, 2005, representing an increase of 36.4%.

Revenues outside India were Rs.2,404.3 million for the three months ended September 30, 2006 as compared to Rs.1,551.4 million for the three months ended September 30, 2005, representing an increase of 55.0%. These revenues contributed 82.7% of the total segment revenues for the three months ended September 30, 2006 as compared to 72.8% for the three months ended September 30, 2005.

Revenues in Europe grew by 58.6% to Rs.535.6 million for the three months ended September 30, 2006 from Rs.337.6 million for the three months ended September 30, 2005 primarily led by growth of sales of our key products ramipril and sertraline.

Revenues in the rest of the world markets increased by 97.7% to Rs.1,431.2 million for the three months ended September 30, 2006 from Rs.723.8 million for the three months ended September 30, 2005, primarily driven by growth in sales in Israel, Turkey and South Korea.

Revenues in North America decreased by 10.7% to Rs.437.5 million for the three months ended September 30, 2006 as compared to Rs.489.9 million for the three months ended September 30, 2005. This decline was primarily due to a decrease in revenues from sertraline and ibuprofen partially offset by an increase in sales of development products.

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Revenues in India were Rs.501.6 million for the three months ended September 30, 2006 as compared to Rs.578.9 million for the three months ended September 30, 2005, representing a decrease of 13.4%, primarily on account of a decline in sales volumes in key products.

We filed three Drug Master Files, or DMFs in the United States during the quarter, bringing our total DMF filings in the U.S. to 86. We also filed three DMFs in Canada.

Generics

Revenues in this segment were Rs.12,112.5 million for the three months ended September 30, 2006 as compared to Rs.772.8 million for the three months ended September 30, 2005.

North America contributed 75.0% and Europe contributed 25.0% to the segment revenues.

In North America, revenues increased to Rs.9,082.3 million for the three months ended September 30, 2006 from Rs.299.4 million for the three months ended September 30, 2005. Combined revenues of simvastatin and finasteride launched as generic versions of Zocor® and Proscar® respectively, for the three months ended September 30, 2006 were Rs.7,808.0 million. Fexofenadine, which we launched in April, 2006, contributed Rs.806.7 million in revenues for the three months ended September 30, 2006.

In Europe, revenues increased to Rs.3,026.2 million for the three months ended September 30, 2006 from Rs.473.4 million for the three months ended September 30, 2005.

Revenues from the acquired betapharm business in Germany were Rs.2,554.5 million for the three months ended September 30, 2006 as compared to Rs.1,997.6 million for the three months ended June 30, 2006. betapharm was acquired by us on March 3, 2006 and accordingly, the corresponding previous quarter ended September 30, 2005 did not have any revenues from betapharm.

Revenues from the United Kingdom (U.K.) declined to Rs.454.8 million for the three months ended September 30, 2006 from Rs.473.4 million for the three months ended September 30, 2005. This decline was primarily on account of a decline in prices of key products of amlopidine and omeprazole in the U.K. Revenues from acquired products in Spain contributed Rs.16.9 million for the three months ended September 30, 2006.

During the three months ended September 30, 2006, we filed eight ANDAs with the U.S. FDA, five of which were Paragraph IVs. As of September 30, 2006, we had a total of 56 ANDAs pending at the U.S. FDA.

Formulations

Revenue Outside India

Revenue by geography (outside India)

	Three Months Ended September 30, 2006 Convenience Translation	Three Months Ended September 30, 2005 Convenience Translation

Country	(Rs.)	Into U.S.$	%(1)	(Rs.)	Into U.S.$	%(1)	Growth %(2)
	In millions			In millions			
Russia and other countries of the former Soviet Union	984.8	21.4	75.0	846.3	18.4	79.2	29.4
Europe	99.9	2.2	7.6	51.0	1.1	4.8	95.9
Others	227.8	5.0	17.4	171.3	3.7	16.0	33.0
Total	1,312.5	28.6	100.0	1,068.6	23.3	100.0	22.8

(1) Refers to our revenues from formulations sales in the applicable country expressed as a percentage of our total revenues from formulations sales throughout the world.

(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

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Revenues were Rs.1,312.5 million for the three months ended September 30, 2006, which represents an increase of 22.8% from the three months ended September 30, 2005. The growth was primarily driven by the sales in Russia, Uzbekistan, Romania and Venezuela.

Revenues in Russia increased by 18.0% to Rs.759.2 million for the three months ended September 30, 2006 as compared to Rs.643.7 million for the three months ended September 30, 2005. This growth was primarily driven by an increase in sales from key brands of Nise, Cetrine and Keterol. During the three months ended September 30, 2006, we launched four new products including two over-the-counter (OTC) products. We improved our ranking to eight in the retail prescription market from nine for the same period last year. (April June Pharmexpert).

Revenues in the markets of the former countries of the Soviet Union, or CIS increased by 11.4% to Rs.225.6 million for the three months ended September 30, 2006 as compared to Rs.202.6 million for the three months ended September 30, 2005. This growth was primarily driven by an increase in sales in Ukraine, Belarus and Uzbekistan.

Revenues outside India markets excluding Russia, other countries of the former Soviet Union and Europe increased by 33.0% to Rs.227.8 million for the three months ended September 30, 2006 from Rs.171.3 million for the three months ended September 30, 2005. The growth was primarily driven by an increase in sales in Venezuela, South Africa, Myanmar and Vietnam.

Revenues in Europe grew by 95.9% to Rs.99.9 million for the three months ended September 30, 2006 as compared to Rs.51.0 million for the three months ended September 30, 2005. This growth was mainly on account of a growth of sales in Romania and Albania.

Formulations India

Revenues were Rs. 1.743.2 million for the three months ended September 30, 2006, representing an increase of 15.6%, as compared to Rs.1,507.5 million for the three months ended September 30, 2006.

Growth was primarily driven by growth in our key brands of Omez, Nise and Reclimet.

We have launched 12 new products during the six months ended September 30, 2006. These products contributed Rs.62.9 million to revenues for the three months ended September 30, 2006.

New launches of Omez-D and Razo-D rank among the 10 most successful launches of 2006 as per August 2006 ORG IMS MAT.

As per August MAT ORG IMS:

We recorded volume growth of 17% as compared to industry volume growth of 15%.

We recorded value growth of 16%, in line with industry growth.

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Formulations India revenues by therapies

Therapeutic Segment[1]	Three Months Ended September 30, 2006 Convenience Translation Into (Rs.)	U.S.$	%[2]	Three Months Ended September 30, 2005 Convenience Translation Into (Rs.)	U.S.$	%[2]	Growth %[3]
	In millions			In millions			
Cardiovascular	294.0	6.4	16.8	276.9	6.0	18.4	6.2
Gastro-intestinal	347.4	7.6	19.9	281.0	6.1	18.6	23.6
Pain	289.2	6.3	16.6	224.5	4.9	14.9	28.9
Diabetic care	127.0	2.8	7.3	122.7	2.7	8.1	3.6
Paediatrics	189.5	4.1	10.9	154.1	3.4	10.2	23.1
Neutraceuticals	84.7	1.8	4.9	85.6	1.9	5.7	(1.0)
Dermatology	73.0	1.6	4.2	71.9	1.6	4.8	1.6
Anti-infectives	111.4	2.4	6.4	86.7	1.9	5.8	28.4
Dental	60.9	1.3	3.5	60.0	1.3	4.0	1.4
Urology	59.0	1.3	3.4	40.1	0.9	2.7	47.2
Women s health care	30.5	0.7	1.8	34.7	0.8	2.3	(11.9)
Surgery	33.0	0.7	1.9	30.9	0.7	2.0	6.6
Respiratory	42.8	0.9	2.4	38.4	0.8	2.5	11.3
Nephrology	0.8	0.0	0.0				
Total	1,743.2	37.9	100.0	1,507.5	32.8	100.0	15.7

(1) Due to revised therapeutic segments, revenues for the previous year have been regrouped.

(2) Refers to the therapeutic category s revenues from sales in India expressed as a percentage of our total revenues from sales in all of our therapeutic categories in India.

(3) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

Formulations India revenues by key brands

Brand	Three Months Ended September 30, 2006 Convenience translation into (Rs.)	U.S.$	%[1]	Three Months Ended September 30, 2005 Convenience translation into (Rs.)	U.S.$	%[1]	Growth %[2]
	In millions			In millions			

Nise	274.1	6.0	15.7%	227.6	4.9	15.1%	20.4%
Omez	223.9	4.9	12.8%	182.3	4.0	12.1%	22.8%
Stamlo	88.3	1.9	5.1%	83.3	1.8	5.5%	6.0%
Stamlo beta	66.2	1.4	3.8%	69.3	1.5	4.6%	(4.5)%
Razo	56.8	1.2	3.3%	34.7	0.8	2.3%	63.7%
Atocor	45.5	1.0	2.6%	43.2	0.9	2.9%	5.3%
Enam	42.6	0.9	2.4%	43.8	1.0	2.9%	(2.7)%
Clamp	42.5	0.9	2.4%	33.3	0.7	2.2%	27.6%
Reclimet	39.6	0.9	2.3%	32.1	0.7	2.1%	23.4%
Ketorol	32.7	0.7	1.9%	24.3	0.5	1.6%	34.6%
Others	831.0	18.1	47.7%	733.6	16.0	48.7%	13.3%
Total	1,743.2	37.9	100.0	1,507.5	32.8	100.0	15.7%

(1) Refers to the brand s revenues from sales in India expressed as a percentage of our total revenues from sales in all of our therapeutic categories in India.

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(2) Growth in three months ended September 30, 2006 as compared to three months ended September 30, 2005.

Custom Pharmaceutical Services (CPS)

Revenues from CPS increased to Rs.1,668.1 million for the three months ended September 30, 2006 from Rs.121.6 million for the three months ended September 30, 2005.

Revenues from the acquired Falcon business in Mexico were Rs.1,429.2 million for the three months ended September 30, 2006 as compared to Rs.1,241.0 million for the three months ended June 30, 2006. Falcon was acquired by us on December 30, 2005 and accordingly, the corresponding previous quarter ended September 30, 2005 did not have any revenues from Falcon.

Excluding the contribution from the acquired Falcon business in Mexico, revenues increased from Rs.121.6 million for the three months ended September 30, 2005 to Rs.238.9 million for the three months ended September 30, 2006, driven by growth in our customer base and their product portfolio.

Critical Care and Biotechnology

Revenues in our critical care and biotechnology segment were Rs.226.9 million for the three months ended September 30, 2006, representing an increase of 11.8% as compared to the three months ended September 30, 2005.

Income statement highlights

Gross profits increased to Rs.8,288.2 million for the three months ended September 30, 2006 from Rs.2,996.8 million for the three months ended September 30, 2005. Gross profit margins on total revenues were 41.4% as compared to 51.6% for the three months ended September 30, 2005. Revenues from authorized generics contributed 39.0% to total revenues and earned gross margins which were significantly below our average gross margins.

Selling, general and administrative, or SG&A expenses increased by 107.6% from the three months ended September 30, 2005 to Rs.3,667.5 million for the three months ended September 30, 2006. This increase was primarily on account of SG&A relating to our acquired businesses, betapharm and Falcon.

Research and development expenses, net, was 2.0% of total revenues for the three months ended September 30, 2006 as compared to 7.6% for the three months ended September 30, 2005. Gross research and development expenses increased by 24.2% to Rs.743.5 million as compared to Rs.598.8 million for the three months ended September 30, 2005. Under the terms of our research and development partnership agreement with I-VEN Pharma Capital Limited, or I-VEN, we received U.S.$22.5 million in March 2005 to be applied to research and development costs in our generics segment, of which U.S.$5.0 million was recognized as a reduction in research and development expense for the three months ended September 30, 2006, as compared to U.S.3.6 million recognized for the three months ended September 30, 2005. Further, during the three months ended September 30, 2006, our research and development expenses in our drug discovery segment were lower on account of the reimbursement of expenses incurred by us on the development of NCEs assigned to Perlecan Pharma Private Limited, or Perlecan, in terms of our research and development arrangement entered into during the year ended March 31, 2006.

Amortization expense was Rs.402.4 million for the three months ended September 30, 2006 as compared to Rs.76.4 million for the three months ended September 30, 2005. This includes amortization expense of

Rs.323.9 million relating to intangibles in betapharm and Falcon.

Other expense/(income), net was Rs.321.2 million for the three months ended September 30, 2006 as compared to other expense/(income), net of (Rs.191.2) million for the three months ended September 30, 2005. This movement from a net income to a net expense position was primarily on account of net interest expense of Rs.369.2 million incurred for the three months ended September 30, 2006 as compared to net interest income of Rs.140.3 million for the three months ended September 30, 2005.

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The increase in interest expense during three months ended September 30, 2006 was due to the long term debt taken to fund the betapharm acquisition.

Net income for the three months ended September 30, 2006 was Rs.2,797.7 million (14.0% of total revenues) as compared to Rs.889.6 million (15.3% of total revenues) for the three months ended September 30, 2005. This translates to basic and diluted earnings per share of Rs.18.23 and Rs.18.15, respectively, for the three months ended September 30, 2006 as compared to Rs.5.81 and Rs.5.81, respectively, for the three months ended September 30, 2005.

During the three months ended September 30, 2006, we incurred capital expenditure (net) of Rs.1,012.0 million.

Below is a summary of our unaudited financial and operational performance for the six months ended September 30, 2006 and September 30, 2005.

Results for six months ended September 30, 2006

	Six Months Ended September 30, 2006			Six Months Ended September 30, 2005			
	(Rs.)	Convenience Translation Into U.S.$	%(1)	(Rs.)	Convenience Translation Into U.S.$	%(1)	Growth %(2)
	In millions (except per share data)			In millions (except per share data)			
Income Statement:							
Total Revenues	34,088.0	741.8	100.0	11,391.0	247.9	100.0	199.3%
Cost of revenues	19,710.8	429.0	57.8	5,469.8	119.0	48.0	260.4%
Gross profit	14,377.2	312.9	42.2	5,921.2	128.9	52.0	142.8%
Selling, general and administrative expenses	7,013.6	152.6	20.6	3,720.5	81.0	32.7	88.5%
Research and development expenses, net	934.4	20.3	2.7	958.2	20.9	8.4	(2.5)%
Amortization expenses	790.2	17.2	2.3	172.0	3.7	1.5	359.4%
Other operating (income)/expense net	(71.3)	(1.6)	(0.2)	60.9	1.3	0.5	(217.1)%
Operating income before forex loss/(gain)	5,710.3	124.3	16.8	1,009.6	22.0	8.9	465.6%
Forex loss/ (gain)	19.7	0.4	0.1	78.7	1.7	0.7	(75.0)%
Operating income/(loss)	5,690.6	123.8	16.7	930.9	20.3	8.2	511.3%
Equity in loss of affiliates	36.7	0.8	0.1	30.3	0.7	0.3	21.1%
Other expenses/(income) net	517.9	11.3	1.5	(368.0)	(8.0)	(3.2)	
Income before income taxes and minority interest	5,136.0	111.8	15.1	1,268.6	27.6	11.1	304.9%
Income tax (benefit)/expense	944.6	20.6	2.8	33.0	0.7	0.3	2,762.4%

Minority interest	3.9	0.1	0.0	1.3	0.0	0.0	200.0%
Net income	4,195.3	91.3	12.3	1,236.9	26.9	10.9	239.2%
Basic earnings per share (Rs.)	27.34			8.08			
Diluted earnings per share (Rs.)	27.23			8.07			

(1) As a percentage of our total revenues.

(2) Growth in six months ended September 30, 2006 as compared to six months ended September 30, 2005.

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Revenues were Rs.34,088.0 million for the six months ended September 30, 2006 as compared to Rs.11,391.0 million for the six months ended September 30, 2005, representing an increase of 199.3%.

Revenues from markets outside India were Rs.29,265.8 million for the six months ended September 30, 2006, contributing 85.9% to total revenues as compared to 62.2% for the six months ended September 30, 2005. Revenues from markets outside India have increased significantly over the last five years and contributed 49% in the year ended March 31, 2001.

Revenues from India increased for the six months ended September 30, 2006 by 12.1% to Rs.4,822.2 million as compared to the six months ended September 30, 2005.

Gross profits increased to Rs.14,377.2 million for the six months ended September 30, 2006 from Rs.5,921.2 million for the six months ended September 30, 2005. Gross profit margins on total revenues were 42.2% for the six months ended September 30, 2006 as compared to 52.0% for the six months ended September 30, 2005. Revenues from authorized generics contributed 32.7% to our total revenues and earned gross margin for the six months ended September 30, 2006. Gross margin associated with sales of authorized generics products were significantly below our average gross margin.

Selling, general and administrative, or SG&A expenses increased by 88.5% to Rs.7,013.6 million for the six months ended September 30, 2006. This increase was primarily on account of SG&A expenses relating to our acquired businesses, betapharm and Falcon.

Research and development expenses, net was 2.7% of total revenues for the six months ended September 30, 2006 as compared to 8.4% for the six months ended September 30, 2005. In absolute terms, research and development expenses increased by 27.2% to Rs.1,514.3 million for the six months ended September 30, 2006 as compared to Rs.1,190.5 million for the six months ended September 30, 2005. Under the terms of our research and development partnership agreement with I-VEN, we received U.S.$22.5 million in March 2005 to be applied to research and development costs in our generics segment, of which U.S.$8.4 million was recognized as a reduction in research and development expense for the six months ended September 30, 2006, as compared to U.S.5.3 million recognized for the six months ended September 30, 2005. Further, during the six months ended September 30, 2006, our research and development expenses in our drug discovery segment were lower on account of the reimbursement of expenses incurred by us on the development of NCE assigned to Perlecan in terms of our research and development arrangement entered into during the year ended March 31, 2006.

Amortization expense was Rs.790.2 million for the six months ended September 30, 2006 as compared to Rs.172.0 million for the six months ended September 30, 2005. This includes amortization expense of Rs.641.8 million relating to intangibles in betapharm and Falcon.

Other expense/(income), net was Rs.517.9 million for the six months ended September 30, 2006 as compared to other expense/(income), net of (Rs.368.0) million for the six months ended September 30, 2005. This was primarily on account of net interest expense of Rs.622.8 million for the six months ended September 30, 2006 as compared to net interest income of Rs.293.0 million for the six months ended September 30, 2005. The increase in interest expense during three months ended September 30, 2006 was due to the long term debt taken to fund the betapharm acquisition.

Net income was Rs.4,195.3 million (12.3% of total revenues) for the six months ended September 30, 2006 as compared to Rs.1,236.9 million (10.9% of total revenues) for the six months ended September 30, 2005. This

translates to basic and diluted earnings per share of Rs.27.34 and Rs.27.23, respectively,for the six months ended September 30, 2006 as compared to Rs.8.08 and Rs.8.07, respectively, for the six months ended September 30, 2005. This compares with basic and diluted earnings per share of Rs.10.64 and Rs.10.62, respectively, for the year ended March 31, 2006.

During the six months ended September 30, 2006, we incurred capital expenditure (net) of Rs.1,833.6 million.

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Our principal offices are located at 7-1-27, Ameerpet, Hyderabad, Andhra Pradesh 500 016, India, and our telephone number is +91-40-23731946. We maintain a website at http://www.drreddys.com, where general information about us is available. We are not incorporating the contents of our website into this prospectus supplement or the accompanying prospectus.

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THE OFFERING

American Depositary Shares offered by us	up to 13,500,000 ADSs.
ADSs	Each ADS represents one equity share, par value Rs.5 per share. The ADSs will be evidenced by American Depositary Receipts. See Description of American Depositary Shares.
ADSs outstanding before this offering	21,289,255 ADSs.
ADSs outstanding after this offering	up to 34,789,255 ADSs (assuming no exercise of the underwriters option to purchase additional ADSs).
Equity shares outstanding before this offering	153,515,604 equity shares.
Equity shares outstanding after this offering	up to 167,015,604 equity shares (assuming no exercise of the underwriters option to purchase additional ADSs).
Use of proceeds	We estimate that the net proceeds from this offering without exercise of the over-allotment option will be approximately U.S.$ million. We currently intend to use the net proceeds from the offering under this prospectus for general corporate purposes. These purposes may include geographic expansion, potential acquisitions of, or investments in, companies and technologies that complement our business, capital expenditures for increasing production capacities, addition of new capabilities, additions to our working capital and advances to or investments in our subsidiaries/ joint ventures. Net proceeds may be temporarily invested in bank term deposits prior to use. See Use of Proceeds.
Over-allotment option	We have granted to the underwriters an option to purchase up to 1,500,000 additional ADSs at the public offering price less the underwriting discounts and commission. The underwriters may exercise this option for 30 days from the date of this document solely to cover any over-allotments.
Dividends	Every year our Board of Directors recommends the amount of dividends to be paid to shareholders, if any, based upon conditions then existing, including our earnings, financial condition, capital requirements and other factors. The dividends are paid after approval of shareholders in the general meeting. Holders of ADSs will be entitled to receive dividends payable on equity shares represented by such ADSs. Cash dividends on equity shares represented by ADSs are paid to the Depositary in Indian rupees and are converted by the Depositary into U.S.$ and distributed, net of depositary

	fees, taxes, if any, and expenses, to the holders of such ADSs.
Risk factors	See Risk Factors and other information incorporated by reference into this document for a discussion of factors you should carefully consider before deciding to invest in our ADSs.
Listing	We will list the ADSs offered by this prospectus supplement and the accompanying prospectus on the NYSE. Our Equity Shares are

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	principally traded in India on the National Stock Exchange of India Limited and the Bombay Stock Exchange Limited.
NYSE symbol	RDY
Depositary	JPMorgan Chase Bank, N.A.

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SUMMARY FINANCIAL AND OPERATING DATA

Our summary financial and operating data for the fiscal years ended March 31, 2004, 2005, 2006 have been derived from audited financial statements (except for cash dividend per share) for the fiscal year ended March 31, 2004, 2005 and 2006 and summary financial and operating data for the three months ended June 30, 2005 and 2006 have been derived from unaudited condensed consolidated interim financial statements for the three months ended June 30, 2005 and 2006, all prepared in accordance with U.S. GAAP, which are included in and incorporated by reference in this prospectus supplement. You should read the following summary financial and operating data in conjunction with the information under Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus supplement. Historical results are not necessarily indicative of future results.

The summary financial and operating data presented below for fiscal year ended March 31, 2006 and three months ended June 30, 2006 reflect the acquisition of Industrias Quimicas Falcon de Mexico effective December 30, 2005 and beta Holding GmbH effective March 3, 2006 and therefore the results for fiscal year ended March 31, 2006 and three months ended June 30, 2006 are not comparable to the results for prior periods. You should read the following summary financial and operating data in conjunction with the information under Unaudited Pro Forma Combined Statement of Operations.

	Fiscal Year Ended March 31,						Three M	
	2003(2)	2004	2005	2006		2005		
					Convenience Translation Into U.S.$			
	(Rs. in millions, U.S.$ in thousands, except share and per share data)							
08.8	Rs. 18,069.8	Rs. 20,081.2	Rs. 19,126.2	Rs. 24,077.2	U.S.$ 541,304	Rs. 5,573.8	R	
24.8			345.7	47.5	1,068	13.4		
89.1	3.9	22.3	47.5	142.3	3,200	4.2		
22.7	18,073.7	20,103.5	19,519.4	24,267.0	545,572	5,591.4		
69.0	7,744.9	9,337.3	9,385.9	12,417.4	279,168	2,662.9		
53.7	10,328.8	10,766.2	10,133.5	11,849.6	266,404	2,928.5		
74.1	5,103.2	6,542.5	6,774.6	8,028.9	180,505	1,953.8		
42.4	1,411.8	1,991.6	2,803.3	2,153.0	48,403	514.7		
87.7	419.5	382.9	349.9	419.9	9,439	95.6		
09.0)	70.1	(282.5)	488.8	126.3	2,840	65.7		
27.1	0.2	83.2	6.0	(320.4)	(7,202)	36.9		

22.3		7,004.8		8,717.7		10,422.6		10,407.7		233,988		2,666.7
31.4		3,324.0		2,048.5		(289.1)		1,441.9		32,418		261.8
30.5)		(92.1)		(44.4)		(58.1)		(88.2)		(1,984)		(14.5)
81.6		576.8		535.9		454.2		533.6		11,997		172.6
82.5		3,808.7		2,540.0		107.0		1,887.3		42,431		419.9
53.8)		(398.1)		(69.2)		94.3		(258.3)		(5,809)		(72.5)
14.9)		(6.7)		3.4		9.9		(0.1)		(2)		(0.1)
13.8	Rs.	3,403.9	Rs.	2,474.2	Rs.	211.2	Rs.	1,628.9	U.S.$	36,620	Rs.	347.3
2.32	Rs.	22.24	Rs.	16.17	Rs.	1.38	Rs.	10.64	U.S.$	0.24	Rs.	2.27
2.26	Rs.	22.24	Rs.	16.16	Rs.	1.38	Rs.	10.62	U.S.$	0.24	Rs.	2.27
,130		153,031,896		153,027,528		153,037,898		153,093,316		153,093,316		153,065,150
,136		153,031,896		153,099,196		153,119,602		153,403,846		153,403,846		153,324,350
7.00	Rs.	2.50	Rs.	5.00	Rs.	5.00	Rs.	5.00	U.S.$	0.11		

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(1) Each ADS represents one equity share.

(2) Effective as of fiscal year 2003, we selected the retroactive modified method of adoption described in Statement of Financial Accounting Standards No. 148 *Accounting for Stock Based Compensation Transition and Disclosure.* Accordingly, the operating results for the fiscal year ended March 31, 2002 and 2003, which are the only prior periods impacted, have been modified in accordance with the retroactive modified method of adoption.

The Company has reclassified certain expense/income for the fiscal years ended March 31, 2002, 2003, 2004 and 2005, between cost of revenues, operating expenses, revenues, other expense / income and other operating expense/income, to conform to the current year presentation. These reclassifications increased the previously reported gross profit of fiscal year 2002, 2003, 2004 and 2005 by Rs.Nil, Rs.106.6 million, Rs. 31.1 million and Rs. 47.4 million respectively and increased / (reduced) the previously reported operating income of fiscal years 2002, 2003 and 2004 by Rs.(27.1) million, Rs.106.4 million and Rs.(31.7) million respectively and reduced the operating loss for the fiscal year 2005 by Rs.77.3 million. There is however no change in the previously reported net income for the fiscal years 2002, 2003, 2004 and 2005.

(3) On August 30, 2006, we distributed a stock dividend of one equity share for each equity share and ADS issued and outstanding as of August 29, 2006. The number of equity shares presented in the summary consolidated financial data reflect this stock dividend for all periods presented.

	Fiscal Year Ended March 31,						Three Months Ended	
	2002	2003	2004	2005	2006	2006 Convenience Translation Into U.S.$	2005	2
	(Rs. in millions, U.S.$ in thousands, except share and per share data)							
s	Rs. 4,652.8	Rs. 4,366.7	Rs. 3,999.2	Rs. 2,291.6	Rs. 1,643.1	U.S.$ 36,941	Rs. 202.2	Rs. 599.9
s	(1,532.9)	(1,954.7)	(6,506.1)	632.9	(34,524.4)	(776,179)	(224.3)	325.7
s	1,421.8	(153)	(376.1)	1,931.3	27,210.9	611,757	1,134.2	289.9
e								
sh	88.8	(95)	(14.2)	55.8	95.1	2,138	(36.0)	(291.0)
l								
	(1,090.3)	(1,515.7)	(2,415.6)	(1,749.2)	(1,873.3)	(42,115)	(294.8)	(887.3)

	As of March 31,					As of June 30,
	2002	2003	2004	2005	2006	2006 Convenience Translation Into U.S.$

(Rs. in millions, U.S.$ in thousands, except share and per share data)

heet

ash								
Rs. 5,109.4	Rs. 7,273.4	Rs. 4,376.2	Rs. 9,287.9	Rs. 3,712.6	U.S.$ 83,468	Rs. 3,437.3	U.S.$	
pital 9,518.6	12,023.5	11,103.3	10,770.9	1,345.1	30,242	978.4		
s 18,967.0	23,091.7	26,619.3	29,288.4	68,768.1	1,546,045	77,492.5		
term								
ding								
tion 47.0	40.91	31.0	25.1	20,937.1	470,709	21,724.9		
15,457.4	18,831.8	21,039.4	20,953.2	22,271.7	500,713	24,046.8		
rs								
15,457.4	18,831.8	21,039.4	20,953.2	22,271.7	500,713	24,046.8		

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RISK FACTORS

Investing in the securities offered using this prospectus supplement and accompanying prospectus involves risk. You should consider carefully the following risk factors as well as the risks described in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus before you decide to buy your securities. The risks below are not the only ones we face. Additional risks not currently known to us or that we presently deem immaterial may also affect our business operations. Our business, financial condition or results of operations could be materially or adversely affected by any of these risks. If any of these risks actually occur you may lose all or part of your investment.

Risks Relating to Our Company and Our Business

Failure of our research and development efforts may restrict introduction of new products, which is critical to our business.

Our future results of operations depend, to a significant degree, upon our ability to successfully commercialize additional products in our active pharmaceutical ingredients and intermediates, generics and formulations, critical care and biotechnology and drug discovery businesses, as well as our most recent business focus, specialty pharmaceuticals. We must develop, test and manufacture generic products as well as prove that our generic products are the bio-equivalent of their branded counterparts. All of our products must meet and continue to comply with regulatory and safety standards and receive regulatory approvals; we may be forced to withdraw a product from the market if health or safety concerns arise with respect to such product. The development and commercialization process, particularly with respect to innovative products, is both time consuming and costly and involves a high degree of business risk. Our products currently under development, if and when fully developed and tested, may not perform as we expect, necessary regulatory approvals may not be obtained in a timely manner, if at all, and we may not be able to successfully and profitably produce and market such products.

To develop our products pipeline, we commit substantial efforts, funds and other resources to research and development, both through our own dedicated resources and our collaborations with third parties. Our ongoing investments in new product launches and research and development for future products could result in higher costs without a proportionate increase in revenues. Our overall profitability depends on our ability to continue developing commercially successful products.

Our dependence on research and development makes it highly important that we recruit and retain high quality researchers and development specialists. Should we fail in our efforts, this could adversely affect our ability to continue developing commercially successful products and, thus, our overall profitability.

If we cannot respond adequately to the increased competition we expect to face in the future, we will lose market share and our profits will go down.

Our products face intense competition from products commercialized or under development by competitors in all our business segments based in India and overseas. Many of our competitors have greater financial resources and marketing capabilities than we do. Some of our competitors, especially multinational pharmaceutical companies, have greater experience than we do in clinical testing and human clinical trials of pharmaceutical products and in obtaining regulatory approvals. Our competitors may succeed in developing technologies and products that are more effective, more popular or cheaper than any we may develop or license. These developments could render our technologies and products obsolete or uncompetitive, which would harm our business and financial results. We believe some of our

competitors have broader product ranges, stronger sales forces and better segment positioning than us, which enables them to compete effectively.

To the extent that we succeed in being the first to market a generic version of a significant product, and particularly if we obtain the 180-day period of market exclusivity provided under the Hatch-Waxman Act of 1984, as amended, our sales and profit can be substantially increased in the period following the introduction of such product and prior to a competitor s introduction of the equivalent product or the launch of an

authorized generic. Selling prices of generic drugs typically decline, sometimes dramatically, as additional companies receive approvals for a given product and competition intensifies. Our ability to sustain our sales and profitability of any product over time is dependent on both the number of new competitors for such product and the timing of their approvals.

Our generics business is also facing increasing competition from brand-name manufacturers who do not face any significant regulatory approvals or barriers to entry into the generics market. These brand-name companies sell generic versions of their products to the market directly or by acquiring or forming strategic alliances with our competitor generic pharmaceutical companies or by granting them rights to sell authorized generics. Moreover, brand-name companies continually seek new ways to delay the introduction of generic products and decrease the impact of generic competition, such as filing new patents on drugs whose original patent protection is about to expire, developing patented controlled-release products, changing product claims and product labeling, or developing and marketing as over-the-counter products those branded products which are about to face generic competition.

If we cannot maintain our position in the Indian pharmaceutical industry in the future, we may not be able to attract co-development, outsourcing or licensing partners and may lose market share.

In order to attract multinational corporations into co-development and licensing arrangements, it is necessary for us to maintain the position of a leading pharmaceutical company in India. Multinational corporations have been increasing their outsourcing of both active pharmaceutical ingredients and generic formulations to highly regarded companies that can produce high quality products at low cost that conform to standards set in developed markets. If we cannot maintain our current position in the market, we may not be able to attract outsourcing or licensing partners and may lose market share.

If we fail to comply fully with government regulations applicable to our research and development activities or regarding the manufacture of our products, it may delay or prevent us from developing or manufacturing our products.

Our research and development activities are heavily regulated. If we fail to comply fully with applicable regulations, then there could be a delay in the submission or approval of potential new products for marketing approval. In addition, the submission of an application to a regulatory authority does not guarantee that a license to market the product will be granted. Each authority may impose its own requirements and/or delay or refuse to grant approval, even when a product has already been approved in another country. In the United States, as well as many of the international markets into which we sell our products, the approval process for a new product is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. This registration process increases the cost to us of developing new products and increases the risk that we will not be able to successfully sell such new products.

Also, governmental authorities, including the U.S. Food and Drug Administration (U.S. FDA), heavily regulate the manufacture of our products. If we or our third party suppliers fail to comply fully with such regulations, then there could be a government-enforced shutdown of production facilities, which in turn could lead to product shortages. A failure to comply fully with such regulations could also lead to a delay in the approval of new products.

Reforms in the health care industry and the uncertainty associated with pharmaceutical pricing, reimbursement and related matters could adversely affect the marketing, pricing and demand for our products.

Increasing expenditures for health care have been the subject of considerable public attention in almost every jurisdiction where we conduct business. Both private and governmental entities are seeking ways to reduce or contain health care costs. In many countries in which we currently operate, including India, pharmaceutical prices are subject

to regulation. The existence of price controls can limit the revenues we earn from our products. In the United States, numerous proposals that would effect changes in the United States

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health care system have been introduced or proposed in Congress and in some state legislatures, including the enactment in December 2003 of expanded Medicare coverage for drugs, which became effective in January 2006. In Germany, the government has introduced several healthcare reforms in order to control healthcare spending and promote the prescribing of generic drugs. As a result, the prices of generic pharmaceutical products in Germany have declined and may further decline in the future. Similar developments may take place in our other key markets. We cannot predict the nature of the measures that may be adopted or their impact on the marketing, pricing and demand for our products.

In addition, governments throughout the world heavily regulate the marketing of our products. Most countries also place restrictions on the manner and scope of permissible marketing to physicians, pharmacies and other health care professionals. The effect of such regulations may be to limit the amount of revenue that we may be able to derive from a particular product. Moreover, if we fail to comply fully with such regulations, then civil or criminal actions could be brought against us.

If a regulatory agency amends or withdraws existing approvals to market our products, this may cause our revenues to decline.

Regulatory agencies may at any time reassess the safety and efficacy of our products based on new scientific knowledge or other factors. Such reassessments could result in the amendment or withdrawal of existing approvals to market our products, which in turn could result in a loss of revenue, and could serve as an inducement to bring lawsuits against us.

If we are sued by consumers for defects in our products, it could harm our reputation and thus our profits.

Our business inherently exposes us to potential product liability. From time to time, the pharmaceutical industry has experienced difficulty in obtaining desired amounts of product liability insurance coverage. Although we have obtained product liability coverage with respect to products that we manufacture, if any product liability claim sustained against us were to be not covered by insurance or were to exceed the policy limits, it could harm our business and financial condition. This risk is likely to increase as we develop our own new-patented products in addition to making generic versions of drugs that have been in the market for some time.

In addition, product liability coverage for pharmaceutical companies is becoming more expensive. As a result, we may not be able to obtain the type and amount of coverage we desire. Furthermore, the severity and timing of future claims are unpredictable. Our customers may also bring lawsuits against us for alleged product defects. The existence, or even threat of, a major product liability claim could also damage our reputation and affect consumers views of our other products, thereby negatively affecting our business, financial condition and results of operations.

If we are unable to patent new products and processes or to protect our intellectual property rights or proprietary information, or if we infringe on the patents of others, our business may be materially and adversely impacted.

Our overall profitability depends, among other things, on our ability to continuously and timely introduce new generic as well as innovative products. Our success will depend, in part, on our ability in the future to obtain patents, protect trade secrets, intellectual property rights and other proprietary information and operate without infringing on the proprietary rights of others. Our competitors may have filed patent applications, or hold issued patents, relating to products or processes that compete with those we are developing, or their patents may impair our ability to successfully develop and commercialize new products.

Our success with our innovative products depends, in part, on our ability to protect our current and future innovative products and to defend our intellectual property rights. If we fail to adequately protect our intellectual property,

competitors may manufacture and market products similar to ours. We have been issued patents covering our innovative products and processes and have filed, and expect to continue to file, patent applications seeking to protect our newly developed technologies and products in various countries, including

the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

We also rely on trade secrets, unpatented proprietary know-how and continuing technological innovation that we seek to protect, in part by confidentiality agreements with licensees, suppliers, employees and consultants. It is possible that these agreements will be breached and we will not have adequate remedies for any such breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors or we may not be able to maintain the confidentiality of information relating to such products.

Changes in the regulatory environment may prevent us from utilizing the exclusivity periods that are important to the success of our generic products.

The policy of the U.S. FDA regarding the award of 180 days of market exclusivity to generic manufacturers who challenge patents relating to specific products continues to be the subject of extensive litigation in the United States. During this 180-day market exclusivity period, nobody other than the generic manufacturer who won exclusivity relating to the specific product can market that product. The U.S. FDA s current interpretation of the Hatch-Waxman Act of 1984 is to award 180 days of exclusivity to the first generic manufacturer who files a Paragraph IV certification under the Hatch-Waxman Act challenging the patent of the branded product, regardless of whether that generic manufacturer was sued for patent infringement.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 amended the Hatch-Waxman Act and provides that the 180-day market exclusivity period is triggered by the commercial marketing of the product, as opposed to the old rule under which the exclusivity period was triggered by a final, non-appealable court decision. However, the Medicare Prescription Drug Act also contains forfeiture provisions, which, if met, will deprive the first Paragraph IV filer of exclusivity. As a result, under certain circumstances, we may not be able to exploit our 180-day exclusivity period since it may be forfeited prior to our being able to market the product.

In addition, legal and administrative disputes over triggering dates and shared exclusivities may also prevent us from fully utilizing the exclusivity periods.

If we are unable to defend ourselves in patent challenges, we could be subject to injunctions preventing us from selling our products, resulting in a decrease in revenues, or we could be subject to substantial liabilities that would lower our profits.

There has been substantial patent related litigation in the pharmaceutical industry concerning the manufacture, use and sale of various products. In the normal course of business, we are regularly subject to lawsuits and the ultimate outcome of litigation could adversely affect our results of operations, financial condition and cash flow. Regardless of regulatory approval, lawsuits are periodically commenced against us with respect to alleged patent infringements by us, such suits often being triggered by our filing of an application for governmental approval, such as a new drug application. The expense of any such litigation and the resulting disruption to our business, whether or not we are successful, could harm our business. The uncertainties inherent in patent litigation make it difficult for us to predict the outcome of any such litigation.

If we are unsuccessful in defending ourselves against these suits, we could be subject to injunctions preventing us from selling our products, resulting in a decrease in revenues, or to damages, which may be substantial. An injunction or substantial damages resulting from these suits could adversely effect our consolidated financial position, results of

operations or liquidity.

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If we elect to sell a generic product prior to the final resolution of outstanding patent litigation, we could be subject to liabilities for damages.

At times we seek approval to market generic products before the expiration of patents for those products, based upon our belief that such patents are invalid, unenforceable, or would not be infringed by our products. As a result, we are involved in patent litigations, the outcome of which could materially adversely affect our business. Based upon a complex analysis of a variety of legal and commercial factors, we may elect to market a generic product even though litigation is still pending. This could be before any court decision is rendered or while an appeal of a lower court decision is pending. To the extent we elect to proceed in this manner, if the final court decision is adverse to us, we could be required to cease the sale of the infringing products and face substantial liability for patent infringement. These damages may be significant as they may be measured by a royalty on our sales or by the profits lost by the patent owner and not by the profits we earned. Because of the discount pricing typically involved with generic pharmaceutical products, patented brand products generally realize a significantly higher profit margin than generic pharmaceutical products. In the case of a willful infringer, the definition of which is unclear, these damages may even be trebled. In April 2006, we launched, and continue to sell, generic versions of Allegra® (fexofenadine) despite the fact that litigation with the company that holds the patents for and sells this branded product is still pending. This is the only product that we have launched prior to the resolution of outstanding patent litigation.

If we do not maintain and increase our arrangements for overseas distribution of our products, our revenues and net income could decrease.

As of March 31, 2006, we market our products in 86 countries. Our products are marketed in most of these countries through our subsidiaries as well as joint ventures. Since we do not have the resources to market and distribute our products ourselves in all our export markets, we also market and distribute our products through third parties by way of marketing and agency arrangements. These arrangements may be terminated by either party providing the other with notice of termination or when the contract regarding the arrangement expires. We may not be able to successfully negotiate these third party arrangements or find suitable joint venture partners in the future. Any of these arrangements may not be available on commercially reasonable terms. Additionally, our marketing partners may make important marketing and other commercialization decisions with respect to products we develop without our input. As a result, many of the variables that may affect our revenues and net income are not exclusively within our control when we enter into arrangements like these.

If we fail to comply with environmental laws and regulations or face environmental litigation, our costs may increase or our revenues may decrease.

We may incur substantial costs complying with requirements of environmental laws and regulations. In addition, we may discover currently unknown environmental problems or conditions. In all countries in which we have production facilities, we are subject to significant environmental laws and regulations which govern the discharge, emission, storage, handling and disposal of a variety of substances that may be used in or result from our operations. If any of our plants or the operations of such plants are shut down, we may continue to incur costs in complying with regulations, appealing any decision to close our facilities, maintaining production at our existing facilities and continuing to pay labor and other costs which may continue even if the facility is closed. As a result, our overall operating expenses may increase and our profits may decrease.

If the world economy is affected due to terrorism, wars or epidemics, it may adversely affect our business and results of operations.

Several areas of the world, including India, have experienced terrorist acts and retaliatory operations recently. For example, Mumbai was the target of serial railway bombings in July 2006. If the economy of our major markets is

affected by such acts, our business and results of operations may be adversely affected as a consequence.

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In recent years, Asia has experienced outbreaks of avian influenza and Severe Acute Respiratory Syndrome, or SARS. If the economy of our major markets is affected by such outbreaks or other epidemics, our business and results of operations may be adversely affected as a consequence.

If we have difficulty in identifying acquisition candidates or consummating acquisitions, our competitiveness and our growth prospects may be harmed.

In order to enhance our business, we frequently seek to acquire or make strategic investments in complementary businesses or products, or to enter into strategic partnerships or alliances with third parties. It is possible that we may not identify suitable acquisition, strategic investment or strategic partnership candidates, or if we do identify suitable candidates, we may not complete those transactions on terms commercially acceptable to us or at all. We compete with others to acquire companies, and we believe that this competition has intensified and may result in decreased availability or increased prices for suitable acquisition candidates. Even after we identify acquisition candidates and/or announce that we plan to acquire a company, we may ultimately fail to consummate the acquisition. For example, we may be unable to obtain necessary acquisition financing on terms satisfactory to us or may be unable to obtain necessary regulatory approvals, including the approval of antitrust regulatory bodies. The inability to identify suitable acquisition targets or investments or the inability to complete such transactions may affect our competitiveness and our growth prospects.

If we have difficulties in integration and employee retention for beta Holding GmbH or Industrias Quimicas Falcon de Mexico, SA de CV, our business may be harmed.

In fiscal 2006, we expanded the scope of our generics and custom pharmaceutical services businesses through the acquisition of beta Holding GmbH in Germany and Industrias Quimicas Falcon de Mexico, SA de CV in Mexico, and we began our efforts to integrate them with our own operations. Should we ultimately fail to successfully integrate these companies with our existing operations, or should the achievement of a successful integration significantly divert management s attention away from the operation of our business, then our business, financial condition or results of operations could be materially adversely affected. In addition, beta Holding GmbH was a large acquisition relative to our size. As a consequence, the operating results of beta Holding GmBH could have a significant impact on our financial condition or results of operations.

If we acquire other companies, our business may be harmed by difficulties in integration and employee retention, unidentified liabilities of the acquired companies, or obligations incurred in connection with acquisition financings.

All acquisitions involve known and unknown risks that could adversely affect our future revenues and operating results. For example:

We may fail to successfully integrate our acquisitions in accordance with our business strategy.

Integration of acquisitions may divert management s attention away from our primary product offerings, resulting in the loss of key customers and/or personnel, and may expose us to unanticipated liabilities.

We may not be able to retain the skilled employees and experienced management that may be necessary to operate the businesses we acquire. If we cannot retain such personnel, we may not be able to locate or hire new skilled employees and experienced management to replace them.

We may purchase a company that has contingent liabilities that include, among others, known or unknown patent or product liability claims.

Our acquisition strategy may require us to obtain additional debt or equity financing, resulting in additional leverage, or increased debt obligations as compared to equity, and dilution of ownership.

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We may purchase companies located in jurisdictions where we do not have operations and as a result we may not be able to anticipate local regulations and the impact such regulations have on our business.

In addition, if we make one or more significant acquisitions in which the consideration includes the equity shares or other securities, equity interests in us held by holders of the equity shares may be significantly diluted. If we make one or more significant acquisitions in which the consideration includes cash, we may be required to use a substantial portion of our available cash or incur a significant amount of debt or otherwise arrange additional funds to complete the acquisition, which may result in a dilution of earnings per equity share.

Our principal shareholders control us and, if they take actions that are not in your best interests, the value of your investment in our ADSs may be harmed.

Our full time directors together with members of their immediate families, in the aggregate, beneficially own 27.16% of our issued shares as at June 30, 2006. As a result, these people, acting in concert, are likely to have the ability to exercise significant control over most matters requiring approval by our shareholders, including the election and removal of directors and significant corporate transactions. This control by these directors and their family members could delay, defer or prevent a change in control of us, impede a merger, consolidation, takeover or other business combination involving us, or discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, even if that was in our best interest. As a result, the value of your ADSs may be adversely affected or you might be deprived of a potential opportunity to sell your ADSs at a premium.

If we improperly handle any of the dangerous materials used in our business and accidents result, we could face significant liabilities that would lower our profits.

We handle dangerous materials including explosive, toxic and combustible materials like sodium azide, acrolein and acetyl chloride. If improperly handled or subjected to the wrong conditions, these materials could hurt our employees and other persons, cause damage to our properties and harm the environment. This, in turn, could subject us to significant litigation, which could lower our profits in the event we were found liable.

If there is delay and/or failure in supplies of materials, services and finished goods from third parties, it may adversely affect our business and results of operations.

In some of our businesses, we rely on third parties for the timely supply of active pharmaceutical ingredients (API), specified raw materials, equipment, formulation or packaging services and maintenance services. For instance, we rely on third party manufacturers for our entire supply of finished dosages sold in Germany. Although we actively manage these third party relationships to ensure continuity of supplies and services on time and to our required specifications, some events beyond our control could result in the complete or partial failure of supplies and services or in supplies and services not being delivered on time. Any such failure could adversely affect our results of business and results of operations.

In the event that we experience a shortage in our supply of raw materials, we might be unable to fulfill all of the API needs of our generics and formulations segments, which could result in a loss of production capacity for these segments. In addition, this could result in a conflict between the API needs of our generics and formulations segments and the needs of customers of our active pharmaceutical ingredients and intermediates segment, some of whom are also our competitors in the formulations segment. In either case, we could potentially lose business from adversely affected customers and we could be subjected to lawsuits.

If as we expand into new international markets we fail to adequately understand and comply with the local laws and customs , these operations may incur losses or otherwise adversely affect our business and results of operations.

Currently, we operate our business through subsidiaries and equity investees in other countries. In those countries where we have limited experience in operating subsidiaries, such as Germany and Mexico, and in

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reviewing equity investees we are subject to additional risks related to complying with a wide variety of national and local laws, including restrictions on the import and export of certain intermediates, drugs, technologies and multiple and possibly overlapping tax structures. In addition, we may face competition in other countries from companies that may have more experience with operations in such countries or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture. If we do not effectively manage our operations in these subsidiaries and review equity investees effectively, we may lose money in these countries and it may adversely affect our business and results of operations.

Fluctuations in exchange rates and interest rate movements may adversely affect our business and results of operations.

Our principal subsidiaries are located in the United States, Europe and Russia and each has significant local operations. A significant portion of our revenues are in other currencies, especially the U.S. dollar, Euro and Pound sterling, while a significant portion of our costs are in Indian rupees. As a result, if the value of the Indian rupee appreciates relative to these other currencies, our revenues may decrease.

We have entered into borrowing arrangements in connection with our acquisition of betapharm. In the future, we may enter into additional borrowing arrangements in connection with acquisitions or for general working capital purposes. In the event interest rates increase, our costs of borrowing will increase and our results of operations may be adversely affected.

Our success depends on our ability to retain and attract key qualified personnel and, if we are not able to retain them or recruit additional qualified personnel, we may be unable to successfully develop our business

We are highly dependent on the principal members of our management and scientific staff, the loss of whose services might significantly delay or prevent the achievement of our business or scientific objectives. In India, it is not our practice to enter employment agreements with our executive officers and key employees that are as extensive as are generally used in the United States, and each of those executive officers and key employees may terminate their employment upon notice and without cause or good reason. Currently we are not aware that any executive officer or key employee is planning to leave or retire. Competition among pharmaceutical companies for qualified employees is intense, and the ability to retain and attract qualified individuals is critical to our success. There can be no assurance that we will be able to retain and attract such individuals currently or in the future on acceptable terms, or at all, and the failure to do so would have a material adverse effect on our business, financial condition and results of operations. In addition, we do not maintain key person life insurance on any officer, employee or consultant.

We operate in a highly competitive and rapidly consolidating industry.

We operate in a highly competitive and rapidly consolidating industry. Our competitors, which include major multinational corporations, are consolidating, and the strength of the combined companies could affect our competitive position in all of our business areas. Furthermore, if one of our competitors or their customers acquire any of our customers or suppliers, we may lose business from the customer or lose a supplier of a critical raw material.

Risks Relating To Investments In Indian Companies

We are an Indian company and a substantial part of our operations are conducted, and most of our assets are located, in India. In addition, approximately 34.1% of our total revenues for the year ended March 31, 2006 were derived from sales in India. As a result, the following additional risk factors apply.

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A slowdown in economic growth in India may adversely affect our business and results of operations.

Our performance and the quality and growth of our business are necessarily dependent on the health of the overall Indian economy. The Indian economy has grown significantly over the past few years. Any future slowdown in the Indian economy could harm us, our customers and other contractual counterparties. In addition, the Indian economy is in a state of transition. The share of the services sector of the economy is rising while that of the industrial, manufacturing and agricultural sector is declining. It is difficult to gauge the impact of these fundamental economic changes on our business.

A significant change in the Indian government or in its economic liberalization and deregulation policies may adversely affect the Indian economy, the health of which our business depends upon.

The Indian government has traditionally exercised and continues to exercise a dominant influence over many aspects of the economy. The present government is a multi-party coalition and therefore there is no assurance that it will be able to generate sufficient cross-party support to implement economic policies or that the existing economic policies will continue. Any significant change in the government s economic policies could have a significant effect on private-sector entities, including us, and on market conditions and prices of Indian securities, including our shares and our ADSs. India s trade relationships with other countries can also influence Indian economic conditions, which in turn can affect our business.

If communal disturbances or riots erupt in India, or if regional hostilities increase, this would adversely affect the Indian economy, which our business depends upon.

India has experienced communal disturbances, terrorist attacks and riots during recent years. If such disturbances continue or are exacerbated, our operational, sales and marketing activities may be adversely affected. Additionally, India has from time to time experienced hostilities with neighboring countries. The hostilities have continued sporadically. The hostilities between India and Pakistan are particularly threatening, because both India and Pakistan are nuclear powers. Hostilities and tensions may occur in the future and on a wider scale. These hostilities and tensions could lead to political or economic instability in India and harm our business operations, our future financial performance and the price of our shares and our ADSs.

If wage costs or inflation rise in India, it may adversely affect our competitive advantages over higher cost countries and our profits may decline.

Wage costs in India have historically been significantly lower than wage costs in developed countries and have been one of our competitive strengths. However, wage increases in India may increase our costs, reduce our profit margins and adversely affect our business and results of operations.

In addition, although India s inflation levels were relatively moderate during the year ended March 31, 2006, its inflation levels have been much higher at times during the past decade. According to the monthly economic report for September 2006 released by the Department of Economic Affairs, Ministry of Finance in India, the annual inflation rate in India, as measured by the benchmark wholesale price index (Base 1993-94=100), was 5.16% for the week ended September 30, 2006 as compared with 4.61% for the week ended October 1, 2005. The trend may continue and the rate of inflation may further rise. We may not be able to pass these costs on to our customers by increasing the price we charge for our products. If this occurs, our profits may decline.

In the event that a natural disaster should occur in India, including drought, floods and earthquakes, it could adversely affect our production operations and cause our revenues to decline.

Our main facilities are situated around Hyderabad, India. This region has experienced earthquakes, floods and droughts in the past and has experienced droughts in recent years. In the event of a drought so serious that the drinking water in the region is limited, the government could cut the supply of water to all industries, including our facilities. This would adversely affect our production operations and reduce our revenues. Even if we take precautions to provide back-up support in the event of such a natural disaster, the disaster may nonetheless affect our facilities, harming production and ultimately our business.

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There may be less company information available in Indian securities markets than securities markets in developed countries.

There is a difference between the level of regulation and monitoring of the Indian securities markets over the activities of investors, brokers and other participants, as compared to the level of regulation and monitoring of markets in the United States and other developed economies. The Securities and Exchange Board of India is responsible for improving disclosure and other regulatory standards for the Indian securities markets. The Securities and Exchange Board of India has issued regulations and guidelines on disclosure requirements, insider trading and other matters. There may, however, be less publicly available information about Indian companies than is regularly made available by public companies in developed countries, which could affect the market for our equity shares.

Indian stock exchange closures, broker defaults, settlement delays, and Indian government regulations on stock market operations could affect the market price and liquidity of our equity shares.

The Indian securities markets are smaller than the securities markets in the United States and Europe and have experienced volatility from time to time. The regulation and monitoring of the Indian securities market and the activities of investors, brokers and other participants differ, in some cases significantly, from those in the United States and some European countries. Indian stock exchanges have at times experienced problems, including temporary exchange closures, broker defaults and settlement delays and if similar problems were to recur, they could affect the market price and liquidity of the securities of Indian companies, including our shares. Furthermore, any change in Indian government regulations of stock markets could affect the market price and liquidity of our shares.

Financial instability in other countries, particularly emerging market countries in Asia, could affect our business and the price and liquidity of our shares and our ADSs.

The Indian markets and the Indian economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including India. Any worldwide financial instability or any loss of investor confidence in the financial systems of Asian or other emerging markets could increase volatility in Indian financial markets or adversely affect the Indian economy in general. Either of these results could harm our business, our future financial performance and the price of our shares and ADSs.

If there is a change in tax regulations, it may increase our tax liabilities and thus adversely affect our financial results.

Currently, we enjoy various tax benefits and exemptions under Indian tax laws. Any changes in these laws, or their application in matters such as tax exemption on exportation income and transfer pricing, may increase our tax liability and thus adversely affect our financial results.

Stringent labor laws may adversely affect our ability to have flexible human resource policies.

Labor laws in India are more stringent than in other parts of the world. These laws may restrict our ability to have human resource policies that would allow us to react swiftly to the needs of our business.

If we experience labor union problems our production capacity and overall profitability could be negatively affected.

Approximately 10% of our employees belong to a number of different labor unions. If we experience problems with our labor unions, our production capacity and overall profitability could be negatively affected.

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Risks Relating To Our ADSs and Equity Shares

If you are not able to exercise preemptive rights available to other shareholders, your investment in our securities may be diluted.

A company incorporated in India must offer its holders of shares preemptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any shares, unless these rights have been waived by at least 75.0% of the company s shareholders present and voting at a shareholders general meeting. U.S. investors in our ADSs may be unable to exercise preemptive rights for the shares underlying our ADSs unless a registration statement under the Securities Act of 1933 is effective with respect to the rights or an exemption from the registration requirements of the Securities Act of 1933 is available. Our decision to file a registration statement will depend on the costs and potential liabilities associated with a registration statement as well as the perceived benefits of enabling U.S. investors in our ADSs to exercise their preemptive rights and any other factors we consider appropriate at the time. We might choose not to file a registration statement under these circumstances. If we issue any of these securities in the future, such securities may be issued to the depositary, which may sell them in the securities markets in India for the benefit of the investors in our ADSs. We cannot assure you as to the value, if any, the depositary would receive upon the sale of these securities. To the extent that you are unable to exercise preemptive rights, your proportional interests in us would be reduced.

An active or liquid trading market for our ADSs is not assured.

While this offering will increase the number of our ADSs publicly trading in the United States, an active, liquid trading market for our ADSs may not be maintained in the long term. Loss of liquidity could increase the price volatility of our ADSs.

There are limits and conditions to the deposit of shares into the ADS facility.

Indian legal restrictions may limit the supply of ADSs. Although ADS holders are entitled to withdraw the equity shares underlying the ADSs from the depositary at any time, under current Indian law, subject to certain limited exceptions, equity shares so acquired may not be redeposited with the depositary. Therefore, the number of outstanding ADSs will decrease to the extent that equity shares are withdrawn from the depositary which may affect the market price and the liquidity of your ADSs.

Indian law imposes certain restrictions that limit a holder s ability to transfer the equity shares obtained upon conversion of ADSs and repatriate the proceeds of such transfer which may cause our ADSs to trade at a premium or discount to the market price of our equity shares.

Under certain circumstances, the Reserve Bank of India must approve the sale of equity shares underlying ADSs by a non-resident of India to a resident of India. The Reserve Bank of India has given general permission to effect sales of existing shares or convertible debentures of an Indian company by a resident to a non-resident, subject to certain conditions, including the price at which the shares may be sold. Additionally, except under certain limited circumstances, if an investor seeks to convert the rupee proceeds from a sale of equity shares in India into foreign currency and then repatriate that foreign currency from India, he or she will have to obtain Reserve Bank of India approval for each such transaction. Required approval from the Reserve Bank of India or any other government agency may not be obtained on terms favorable to a non-resident investor or at all.

If a substantial number of our shares are offered for sale, the trading price of your ADSs may be depressed.

Sales of additional equity shares or ADSs into the public market following the offering, whether on the Indian stock exchanges or into the U.S. market, could adversely affect the market price of the ADSs. Upon consummation of the offering, shares will be issued and outstanding, including shares represented by ADSs issued in connection with the offering. Of the 153,515,604 shares issued and outstanding prior to the issuance of the ADSs, holders of approximately 41,140,718 shares (including all shares held by all

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executive directors and Dr. Reddy s Holdings Private Limited) have agreed not to offer, sell, contract to sell, grant any option to purchase or otherwise dispose of, or agree to dispose of, any shares for a period of 180 days following the date of this prospectus supplement and accompanying prospectus. The Underwriters may release the shares from the lock-up in their sole discretion at any time and without prior public announcement. Substantially all of the shares that are not subject to these lock-ups will be freely tradeable in India immediately after the offering. Upon expiration of the lock-up period (or earlier with consent), substantially all of the shares will be available for sale on the Indian stock exchanges. Sales of substantial amounts of shares, or the availability of the shares for sale, could decrease the market price of the ADS.

Our equity shares and our ADSs may be subject to market price volatility and the market price of our ADSs may decline disproportionately in response to adverse developments that are unrelated to our operating performance.

Market prices for the securities of pharmaceutical and biotechnology companies, including our own, have historically been highly volatile, and the market has from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. Factors such as the following can have an adverse effect on the market price of our ADSs and equity shares:

fluctuations in our operating results,

the aftermath of our public announcements,

concern as to safety of drugs, and

general market conditions.

The market prices of our shares and ADSs are likely to be particularly volatile due to:

our dependence on drug research and development to drive future operating results,

the inclusion of our shares in the BSE Sensex Index and NSE CNX NIFTY Index, and

the absence of comparable companies in the markets.

FORWARD-LOOKING STATEMENTS

In addition to historical information, this prospectus supplement 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 Exchange Act). Forward-looking statements are all statements that concern plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements that are other than statements of historical fact, including, but not limited to, those that are identified by the use of words such as anticipates, believes, estimates, expects, intends, plans, predicts, projects and similar expressions. Ri uncertainties that could affect us include, without limitation:

general economic and business conditions in India and the other jurisdictions in which we operate;

the ability to successfully implement our strategy, our research and development efforts, growth and expansion plans and technological changes;

changes in the value of the Indian rupee and the currencies of the other jurisdictions in which we operate;

changes in the Indian and international interest rates;

allocations of funds by the governments of the jurisdictions in which we operate;

changes in laws and regulations that apply to our customers, suppliers, and the pharmaceutical industry in all the jurisdictions in which we operate;

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increasing competition in and the conditions of our customers, suppliers and the pharmaceutical industry; and

changes in political conditions in India and the other jurisdictions in which we operate.

Should one or more of such risks and uncertainties materialize, or should any underlying assumption prove incorrect, actual outcomes may vary materially from those indicated in the applicable forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements, which reflect management s analysis only as of the date hereof. We are not required to update any such statement or information to either reflect events or circumstances that occur after the date the statement or information is made or to account for unanticipated events. In addition, investors should carefully review the other information in this prospectus supplement and the accompanying prospectus and 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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USE OF PROCEEDS

We estimate that the net proceeds from this offering, without exercise of the over-allotment option, will be approximately U.S.$ million. We currently intend to use the net proceeds from the offering under this prospectus for general corporate purposes. These purposes may include geographic expansion, potential acquisitions of, or investments in, companies and technologies that complement our business, capital expenditures for increasing production capacities, addition of new capabilities, additions to our working capital and advances to or investments in our subsidiaries/ joint ventures. Net proceeds may be temporarily invested in bank term deposits prior to use.

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PRICE RANGE OF OUR EQUITY SHARES AND AMERICAN DEPOSITARY SHARES

The shares issued and outstanding prior to the offering are listed and traded on the Bombay Stock Exchange Limited or the BSE and the National Stock Exchange of India Limited or the NSE. The prices for shares as quoted in the official list of each of the Indian stock exchanges are expressed in Indian rupees. The ADSs to be issued, each representing one equity share, have been approved for listing on the New York Stock Exchange, or the NYSE, subject to notice of issuance.

We expect that the shares underlying the ADSs will be listed on the BSE and NSE within one week of the offering. The information presented in the table below represents, for the periods indicated:

- the reported high and low equity shares closing prices, quoted in Indian rupees for the shares on the BSE and the reported high and low ADS closing prices, quoted in U.S.$ for the ADSs on the NYSE, for the five most recent fiscal years ended March 31;

- the reported high and low equity shares closing prices, quoted in Indian rupees for the shares on the BSE and the reported high and low ADS closing prices, quoted in U.S.$ for the ADSs on the NYSE, for the 8 most recent quarters; and

- the reported high and low equity shares closing prices, quoted in Indian rupees for the shares on the BSE and the reported high and low ADS closing prices, quoted in U.S.$ for the ADSs on the NYSE, for the six most recent months.

On November 9, 2006, the closing price of our shares on the BSE was Rs.773.30 equivalent to U.S.$17.39 per share, translated at the noon buying rate of Rs.44.46 per U.S.$1.00 on November 9, 2006. See Risk Factors for a discussion of factors that may affect the market price of the ADSs.

	BSE		NYSE	
Fiscal Year	**Price Per Equity Share**		**Price Per Ads**	
Ended March 31,	**High (Rs.)**	**Low (Rs.)**	**High ($)**	**Low ($)**
2006	1,513.00	613.00	33.34	14.91
2005	1,002.90	652.50	24.80	15.05
2004	1,470.00	808.00	33.05	17.58
2003	1,149.90	675.00	24.00	13.30
2002	1,120.00	432.00(1)	25.64	10.04

	BSE		NYSE	
	Price Per Equity Share		**Price Per Ads**	
Three Months Ended	**High (Rs.)**	**Low (Rs.)**	**High ($)**	**Low ($)**
December 31, 2004	879.00	703.00	19.90	16.18
March 31, 2005	890.00	690.00	19.89	16.56

June 30, 2005	762.00	613.00	17.59	14.91
September 30, 2005	865.00	725.00	19.69	17.00
December 31, 2005	990.00	781.50	22.20	17.61
March 31, 2006	1,513.00	950.00	33.34	21.79
June 30, 2006	1,754.00	1,158.00	38.12	24.61
September 30, 2006	751.50(2)	700.00	16.06(2)	15.05(2)

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	BSE Price Per Equity Share		NYSE Price Per Ads	
Month Ended	**High (Rs.)**	**Low (Rs.)**	**High ($)**	**Low ($)**
May 31, 2006	1,754.00	1,282.10	38.12	27.89
June 30, 2006	1,451.50	1,158.00	29.21	24.61
July 31, 2006	1,454.80	1,195.00	31.40	26.31
August 30, 2006	751.50(2)	711.70(2)	32.11(3)	29.76(3)
September 30, 2006	773.50	700.00	16.58	15.05
October 31, 2006	774.00	701.00	17.25	15.25

Source: www.bseindia.com and www.adr.com, respectively.

(1) Stock prices per share have been restated to reflect a two for one stock split, effective on October 25, 2001.

(2) Adjusted for stock dividend for comparison purpose.

(3) The stock dividend and subsequent price adjustment was effective on the NYSE on September 7, 2006. Therefore, there is no adjustment in the ADS price at the NYSE for August 2006. The prices at the BSE and the NYSE are not comparable as of August 30, 2006.

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DIVIDEND POLICY

In the fiscal years ended March 31, 2004, 2005 and 2006, our shareholders declared cash dividends of Rs.5, Rs.5 and Rs.5, respectively, per equity share. Every year our Board of Directors recommends the amount of dividends to be paid to shareholders, if any, based upon conditions then existing, including our earnings, financial condition, capital requirements and other factors. The dividends are paid after approval of our shareholders in our annual general meeting.

Holders of ADSs will be entitled to receive dividends payable on equity shares represented by such ADSs. Cash dividends on equity shares represented by ADSs are paid to the Depositary in Indian rupees and are converted by the Depositary into U.S. dollars and distributed, net of depositary fees, taxes, if any, and expenses, to the holders of such ADSs.

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CAPITALIZATION

The following tables set forth, as of September 30, 2006, our cash and capitalization prepared in accordance with U.S. GAAP on:

- an actual basis; and
- an adjusted basis giving effect to the sale by us of up to 13,500,000 ADSs (representing up to 13,500,000 equity shares) in the offering and after deducting underwriting discounts, commission and estimated offering expenses payable by us.

The following table should be read in conjunction with our consolidated financial statements and the related notes incorporated by reference in this document and Management s Discussion and Analysis of Financial Condition and Results of Operations below.

	As of September 30, 2006					
	Actual			As Adjusted		
	(Rs. in million, U.S.$ in thousand)					
Cash and cash equivalents	Rs.4,875,531	U.S.$	106,105	Rs.	U.S.$	
Borrowings from banks	8,817,947		191,903	8,817,947		191,903
Current portion of long term debt	2,935,199		63,878	2,935,199		63,878
Total short term debt and current portion of long term debt	11,753,146		255,781	11,753,146		255,781
Total long term debt, excluding current portion	20,607,472		448,476	20,607,472		448,476
Stockholders equity:						
Equity shares at Rs.5 par value: 200,000,000 shares authorized; Issued and outstanding: 153,515,604 shares actual, shares as adjusted	767,578		16,705			
Additional paid in capital	9,930,832		216,123			
Equity options outstanding	492,210		10,712			
Retained earnings	14,959,592		325,562			
Equity shares held by a controlled trust: 82,800 shares	(4,882)		(106)			
Accumulated and other comprehensive income	361,054		7,858			
Total stockholders equity	26,506,384		576,853			
Total capitalization	58,867,002		1,281,110			

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EXCHANGE RATES

Fluctuations in the exchange rate between the Indian rupee and the U.S. dollar will affect the U.S. dollar equivalent of the Indian rupee price of the shares on the Indian stock exchanges and, as a result, will likely affect the market price of the ADSs in the United States, and vice versa. These fluctuations will also affect the U.S. dollar conversion by the depositary of any cash dividends paid in Indian rupees on the shares represented by the ADSs.

Our operations are conducted in a large number of countries around the world. As a result, our net income in Indian rupee terms and its presentation in U.S. dollars can be significantly affected by movements in currency exchange rates, in particular the movement of the Indian rupee against the U.S. dollar. See Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following table sets forth, for the fiscal years indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the average of the noon buying rate in the City of New York on the last business day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The column titled Average in the table below is the average of the daily noon buying rate on the last business day of each month during the year.

Fiscal Year Ended March 31,	Period End	Average	High	Low
2002	48.83	47.80	48.83	46.88
2003	47.53	48.43	49.07	47.53
2004	43.40	45.96	47.46	43.40
2005	43.62	44.86	46.45	43.27
2006	44.48	44.17	46.26	43.05

The following table sets forth the high and low exchange rates for the previous six months and is based on the average of the noon buying rate in the City of New York on the last business day of each month during the period for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

Month	High	Low
May 2006	44.81	46.22
June 2006	46.25	45.50
July 2006	46.83	45.84
August 2006	46.61	46.32
September 2006	46.38	45.74
October 2006	45.97	44.90

For the convenience of the reader, this prospectus supplement contains translations of Indian rupee amounts into U.S. dollars which should not be construed as a representation that the Indian rupee or U.S. dollar amounts referred to in this prospectus supplement could have been, or could be, converted into U.S. dollars or Indian rupees at any particular rate, the rates stated below, or at all. Except as otherwise stated in this prospectus, all translations from

Indian rupees to U.S. dollars, for the year ended March 31, 2006, three months ended June 30, 2006 and three and six months ended September 30, 2006, contained in this prospectus supplement are based on the noon buying rate in the City of New York on March 31, 2006, June 30, 2006 and September 30, 2006, respectively, for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on March 31, 2006, June 30, 2006 and September 30, 2006 was Rs.44.48 per U.S.$1.00, Rs.45.87 per U.S.$1.00 and Rs.45.95 per U.S.$1.00, respectively. The noon buying rate on November 9, 2006 was Rs.44.46 per U.S.$1.00. The exchange rates used in this prospectus supplement for translations of Indian rupee amounts into U.S. dollars for convenience purposes differ from the actual rates used in the preparation of our consolidated financial statements, and U.S. dollar amounts used in this prospectus supplement differ from the actual U.S. dollar amounts that were translated into Indian rupees in the financial statements.

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DILUTION

At June 30, 2006, we had a net tangible book value of Rs. per common share or U.S.$ per ADS (based on the noon buying rate in the City of New York on June 30, 2006 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.45.87 per U.S.$1.00 and the ratio of one equity share to one ADS). Net tangible book value represents the amount of our total assets less our total liabilities, divided by , the total number of our equity shares outstanding at June 30, 2006.

After giving effect to the sale by us of ADSs offered by us in the offering, and assuming (1) an offering price of U.S.$ per ADS, the closing price per ADS as reported on the New York Stock Exchange on , 2006 and (2) the underwriters over-allotment options are not exercised, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our net tangible book value estimated at , 2006 would have been approximately Rs. million, representing U.S.$ per ADS. This represents an immediate increase in net tangible book value of Rs. per equity share, or U.S.$ per ADS to existing shareholders and an immediate dilution in net tangible book value of Rs. per equity share, or U.S.$ per ADS to new investors purchasing equity shares in this offering. Dilution for this purpose represents the difference between the price per equity share or ADS paid by these purchasers and net tangible book value per ADS immediately after the completion of the offering.

The following table illustrates this dilution to new investors purchasing ADSs, in the offering:

	Equity Shares	ADSs[2]
Assumed initial public offering price per ADS	Rs.	U.S.$
Net tangible book value per ADS at , 2006		
Increase in net tangible book value per equity share or ADS attributable to new investors		
Pro forma net tangible book value per equity share or ADS after the global offering		
Dilution per equity share or ADS to new investors	Rs.	U.S.$
Percentage of dilution in net tangible book value per equity share or ADS for new investors[1]	%	%

(1) Percentage of dilution for new investors is calculated by dividing the dilution in net tangible book value for new investors by the price of the offering.

(2) Translated for convenience only based on the noon buying rate in the City of New York on November 9, 2006 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York, which was Rs.44.46 per U.S.$1.00 and the ratio of one equity share to one ADS.

Each Rs.1.00 or U.S.$1.00 increase (decrease) in the offering price per equity share or per ADS, respectively, would increase (decrease) the net tangible book value after this offering by Rs. per equity share or U.S.$ per ADS assuming no exercise of the underwriters over-allotment options and the dilution to investors in the offerings by

Rs. per equity share or U.S.$ per ADS, assuming that the number of ADSs offered in the international offering, as set forth on the cover page of this prospectus supplement, remains the same.

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SELECTED CONSOLIDATED FINANCIAL DATA

Our selected financial and operating data for the fiscal years ended March 31, 2004, 2005, 2006 have been derived from audited financial statements (except for cash dividend per share) for the fiscal year ended March 31, 2004, 2005 and 2006 and summary financial and operating data for the three months ended June 30, 2005 and 2006 have been derived from unaudited condensed consolidated interim financial statements for the three months ended June 30, 2005 and 2006, all prepared in accordance with U.S. GAAP, which are included in and incorporated by reference in this prospectus supplement. You should read the following summary financial and operating data in conjunction with the information under Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus supplement. Historical results are not necessarily indicative of future results.

The selected financial and operating data presented below for fiscal year ended March 31, 2006 reflects the acquisition of Industrias Quimicas Falcon de Mexico effective December 30, 2005 and beta Holding GmbH effective March 3, 2006 and therefore the results for fiscal year ended March 31, 2006 are not comparable to the results for prior fiscal years. You should read the following summary financial and operating data in conjunction with the information under Unaudited Pro Forma Combined Statement of Operations.

	Fiscal Year Ended March 31,						Three M
2003[2]	2004	2005	2006		2005		
				Convenience translation into U.S.$			
(Rs. in millions, U.S.$ in thousands, except share and per share data)							
08.8	Rs. 18,069.8	Rs. 20,081.2	Rs. 19,126.2	Rs. 24,077.2	U.S.$ 541,304	Rs. 5,573.8	R
24.8			345.7	47.5	1,068	13.4	
89.1	3.9	22.3	47.5	142.3	3,200	4.2	
22.7	18,073.7	20,103.5	19,519.4	24,267.0	545,572	5,591.4	
69.0	7,744.9	9,337.3	9,385.9	12,417.4	279,168	2,662.9	
53.7	10,328.8	10,766.2	10,133.5	11,849.6	266,404	2,928.5	
74.1	5,103.2	6,542.5	6,774.6	8,028.9	180,505	1,953.8	
42.4	1,411.8	1,991.6	2,803.3	2,153.0	48,403	514.7	
87.7	419.5	382.9	349.9	419.9	9,439	95.6	
09.0)	70.1	(282.5)	488.8	126.3	2,840	65.7	
27.1	0.2	83.2	6.0	(320.4)	(7,202)	36.9	

22.3		7,004.8		8,717.7		10,422.6		10,407.7		233,988		2,666.7		
31.4		3,324.0		2,048.5		(289.1)		1,441.9		32,418		261.8		
30.5)		(92.1)		(44.4)		(58.1)		(88.2)		(1,984)		(14.5)		
81.6		576.8		535.9		454.2		533.6		11,997		172.6		
82.5		3,808.7		2,540.0		107.0		1,887.3		42,431		419.9		
53.8)		(398.1)		(69.2)		94.3		(258.3)		(5,809)		(72.5)		
14.9)		(6.7)		3.4		9.9		(0.1)		(2)		(0.1)		
13.8	Rs.	3,403.9	Rs.	2,474.2	Rs.	211.2	Rs.	1,628.9	U.S.$	36,620	Rs.	347.3	R	
2.32	Rs.	22.24	Rs.	16.17	Rs.	1.38	Rs.	10.64	U.S.$	0.24	Rs.	2.27	R	
2.26	Rs.	22.24	Rs.	16.16	Rs.	1.38	Rs.	10.62	U.S.$	0.24	Rs.	2.27	R	
,130		153,031,896		153,027,528		153,037,898		153,093,316		153,093,316		153,065,150		
,136		153,031,896		153,099,196		153,119,602		153,403,846		153,403,846		153,324,350		
7.00	Rs.	2.50	Rs.	5.00	Rs.	5.00	Rs.	5.00	U.S.$	0.11				

(1) Each ADS represents one equity share.

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(2) Effective as of fiscal year 2003, we selected the retroactive modified method of adoption described in Statement of Financial Accounting Standards No. 148 *Accounting for Stock Based Compensation Transition and Disclosure.* Accordingly, the operating results for the fiscal year ended March 31, 2002 and 2003, which are the only prior periods impacted, have been modified in accordance with the retroactive modified method of adoption. The Company has reclassified certain expense/income for the fiscal years ended March 31, 2002, 2003, 2004 and 2005, between cost of revenues, operating expenses, revenues, other expense / income and other operating expense/income, to conform to the current year presentation. These reclassifications increased the previously reported gross profit of fiscal year 2002, 2003, 2004 and 2005 by Rs.Nil, Rs.106.6 million, Rs. 31.1 million and Rs. 47.4 million respectively and increased/(reduced) the previously reported operating income of fiscal years 2002, 2003 and 2004 by Rs.(27.1) million, Rs.106.4 million and Rs.(31.7) million respectively and reduced the operating loss for the fiscal year 2005 by Rs.77.3 million. There is however no change in the previously reported net income for the fiscal years 2002, 2003, 2004 and 2005.

(3) On August 30, 2006, we distributed a stock dividend of one equity share for each equity share and ADS issued and outstanding as of August 29, 2006. The number of equity shares presented in the selected consolidated financial data reflect this stock dividend for all periods presented.

	Fiscal Year Ended March 31,						Three Months Ended	
	2002	2003	2004	2005	2006		2005	2
						Convenience translation into U.S.$		
	(Rs. in millions, U.S.$ in thousands, except share and per share data)							
s	Rs. 4,652.8	Rs. 4,366.7	Rs. 3,999.2	Rs. 2,291.6	Rs. 1,643.1	U.S.$ 36,941	Rs. 202.2	Rs. 599.9
s	(1,532.9)	(1,954.7)	(6,506.1)	632.9	(34,524.4)	(776,179)	(224.3)	325.7
s	1,421.8	(153)	(376.1)	1,931.3	27,210.9	611,757	1,134.2	289.9
e								
sh	88.8	(95)	(14.2)	55.8	95.1	2,138	(36.0)	(291.0)
d	(1,090.3)	(1,515.7)	(2,415.6)	(1,749.2)	(1,873.3)	(42,115)	(294.8)	(887.3)

	As of March 31,					As of June 30	
	2002	2003	2004	2005	2006	2006	
					Convenience translation into U.S.$	Conv translat U	
	(Rs. in millions, U.S.$ in thousands, except share and per share data)						
heet							
	Rs. 5,109.4	Rs. 7,273.4	Rs. 4,376.2	Rs. 9,287.9	Rs. 3,712.6	U.S.$ 83,468	Rs. 3,437.3 U.S.$

ash							
pital	9,518.6	12,023.5	11,103.3	10,770.9	1,345.1	30,242	978.4
s	18,967.0	23,091.7	26,619.3	29,288.4	68,768.1	1,546,045	77,492.5
term							
ding							
tion	47.0	40.91	31.0	25.1	20,937.1	470,709	21,724.9
	15,457.4	18,831.8	21,039.4	20,953.2	22,271.7	500,713	24,046.8
rs							
	15,457.4	18,831.8	21,039.4	20,953.2	22,271.7	500,713	24,046.8

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following Management s Discussion and Analysis of Financial Condition and Results of Operations in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus supplement. Our consolidated financial statements have been presented in Indian Rupees and prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those described in this section, the Risk Factors section and elsewhere in this prospectus supplement.

Overview

We are an emerging global pharmaceutical company with proven research capabilities. We derive our revenues from the sale of finished dosage forms, active pharmaceutical ingredients and intermediates and biotechnology products, with a focus on India, the United States, Europe and Russia; from development and manufacturing services provided to innovator pharmaceutical and biotechnology companies; and from license fees from our drug discovery operations.

As of June 30, 2006, we had the following business segments:

Formulations. In this segment we derive revenues from the sale of finished dosage forms, primarily in India and other emerging markets. Key drivers of profitability in this segment are the volume and price of products sold, which in turn are dependent upon the popularity of our branded products in the relevant markets. Increases in this segment in recent periods have tended to flow from increased marketing efforts and expansion of our markets, as opposed to price increases.

Active pharmaceutical ingredients and intermediates. In this segment we derive revenues from our sales to third parties of the principal ingredients for finished dosages. Our principal markets are Europe, the United States and India. Revenues in this segment are dependent upon the number of products that lose patent protection in any given period, and the price of those products, which tends to decline over time. These being commoditized products, our ability to set prices is limited, while the cost of revenues generally remains stable. Thus, in any given period, different products will contribute varying amounts to our revenues and our gross profits. Recent increases in revenues from this segment have generally been due to increased sales volumes.

Generics. In this segment we derive revenues from the sale of therapeutic equivalents of branded drugs, primarily in Europe and the United States. Revenues from beta Holding GmbH (betapharm), our recently acquired business in Germany, are included in this segment from March 3, 2006 and thus will tend to increase revenues from this segment in future periods. Revenues from our sale of generics are highly cyclical. In the event that we obtain 180-day exclusivity for a particular product, we generally experience significantly increased revenues for this period, particularly at the beginning of the period, with sales prices decreasing toward the end of the 180 days as other manufacturers enter the market. Cost of sales remains generally constant, however, and thus products coming off patent contribute significantly to gross margins for a limited period, tending to increase volatility in this segment. Subsequent to March 31, 2006, we launched two products pursuant to an agreement for authorized generics, pursuant to which the innovator company licensed us to distribute generic versions of their branded product and sell it in competition with the companies that have 180-day exclusivity. In these cases, while sales volumes increase significantly (again, more significantly in the early part of the 180-day period), profit-sharing agreements with the innovator company mean that gross

margins are much lower than would be the case if we were distributing the product under 180-day exclusivity. Additionally, the existence of authorized generic arrangements (a relatively new development) by innovator companies with other manufacturers in cases where we have obtained 180-day exclusivity could adversely affect overall sales revenues during the 180-day period.

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Critical care and biotechnology. In this segment we derive revenues from the sale of our critical care and biotechnology products, primarily to hospitals in India. Revenues are driven by the volume of products sold, and the price of those products. These are generally low-volume, higher gross margin products, although pricing pressure in key products has recently reduced gross margins.

Drug discovery. Revenues in this segment are derived from licensing fees for new molecules that we discover. Thus, revenues are dependent upon the success of our research activities, and may vary significantly from period to period depending upon whether specified milestones in licensing agreements are reached. In September, 2005, we formed Perlecan Pharma Private Limited, or Perlecan as a joint venture with Citigroup Venture Capital International Growth Partnership Mauritius Limited and ICICI Venture Funds Management Company and contributed capital and four New Chemical Entities, or NCE assets to Perlecan. Perlecan has continued development of these NCE assets.

Custom pharmaceutical services. In this segment we derive revenues from service fees for process development and manufacturing services provided to innovator pharmaceutical and biotechnology companies. Revenues from our newly acquired business Falcon are included in this segment from December 30, 2005 and thus would tend to increase revenues from this segment in future periods. The key driver of revenue in this segment is likely to be the increasing outsourcing of late-stage and off-patent molecules by large pharmaceutical companies to compete with generics.

In addition, we are currently in the research and development phase of a specialty pharmaceuticals business, which may become a separate segment at some point in the future.

Our revenues for fiscal 2006 were Rs.24,267.0 million (U.S.$545.6 million). We derived 34.1% of these revenues from sales in India, 16.4% from North America, 14.7% from Russia and other countries of the former Soviet Union, 17.8% from Europe and 17.0% from other countries. Our net income for fiscal 2006 was Rs.1,628.9 million (U.S.$36.62 million).

Our total revenues for the three months ended June 30, 2006 were Rs.14,049.4 million (U.S.$306.29 million). For the three months ended June 30, 2006, we received 34.6% of our revenues from North America (United States and Canada), 17.0% of our revenues from India, 10.4% of our revenues from Russia and other former Soviet Union countries, 23.1% of our revenues from Europe and 14.9% of our revenues from other countries. Our net income for the three months ended June 30, 2006 was Rs.1,397.6 million (U.S.$30.5 million).

Acquisition of betapharm group

During fiscal 2006, we acquired beta Holding Gmbh (betapharm) which, according to INSIGHT Health s NPI-Gx reports, is Germany s fourth largest generic pharmaceuticals company. The aggregate purchase price was 482.6 million (Rs.26,063.3 million) in cash. betapharm has a portfolio of 145 products and, according to INSIGHT Health s NPI-Gx reports, has been the fastest growing among the 10 largest generics companies in Germany (INSIGHT Health NPI-Gx over the past 5 years). In the last 12 months betapharm has launched over 10 new products in the market. As a result of this acquisition, the financials of betapharm have been consolidated with our generics segment effective as of March 3, 2006. Revenues from betapharm were Rs.704.9 million and Rs.1,997.6 million in fiscal 2006 (starting March 3, 2006) and for the three months ended June 30, 2006, respectively.

The acquisition of betapharm represented an excellent opportunity for us to acquire a sales and marketing business with a high-quality product portfolio in a favorable market. betapharm is a strong fit to our strategic initiative of becoming a mid-sized global pharmaceutical company with a strong presence in all key pharmaceutical markets.

betapharm provides us with a solid foundation for our entry into the German generics market, which is a market that has high barriers of entry. betapharm has a nationwide sales force which has strong and long-term relationships with a network of physicians, pharmacists and Statutory Health Insurance (SHI) funds. In the future, we anticipate using betapharm as a distribution platform for our products in Germany.

During the three months ended September 30, 2006, we have completed the final allocation of purchase price of beta Holding GmbH based on management s estimate of fair values and independent valuations of intangible assets. As a result of the final allocation, total intangibles increased from Rs.16,325.6 million as at

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March 31, 2006 to Rs.19,852.2 million as at September 30, 2006, goodwill decreased from Rs.14,958.8 million as at March 31, 2006 to Rs.12,848.4 as at September 30, 2006 and deferred tax liability, net increased from Rs.5,825.4 million as at March 31, 2006 to Rs.7,241.7 million as at September 30, 2006. As a result of the final allocation, total intangibles increased by Rs.3,526.6 million from Rs.16,325.6 million to Rs.19,852.2 million, with a consequential impact on deferred tax liability and goodwill. The adjustment to the values of intangibles, goodwill and deferred tax liability and revision to useful lives will not have any material impact on our results.

We have completed the process of integrating the financial management operations of betapharm into our financial management operations. We continue to engage in the integration of all other operational functions of betapharm into our operations.

Acquisition of Industrias Quimicas Falcon de Mexico

During fiscal 2006, we acquired Industrias Quimicas Falcon de Mexico (Falcon), one of Roche s manufacturing subsidiaries with facilities located at Cuernavaca, Mexico for a total purchase consideration of U.S.$61.2 million (Rs.2,773.1 million). As a result of this acquisition, the financials of Falcon have been consolidated with our custom pharmaceuticals services segment effective as of December 30, 2005. Revenues from the Falcon business were Rs.804 million and Rs.1,241.1 million in fiscal 2006 (starting December 30, 2005) and for the three months ended June 30, 2006, respectively.

Falcon was acquired with an intent to add steroid manufacturing capabilities and permit us to offer a full range of services in our custom pharmaceutical services business. Falcon is engaged in the manufacture and sale of APIs, intermediates and steroids and has a portfolio of 18 products.

In accordance with U.S. GAAP, we allocated the total purchase price of the acquisition of Falcon to net tangible assets, customer contracts and non-competition agreement. As a result of the Falcon acquisition, we will also incur additional depreciation and amortization expense over the useful lives of certain of the net tangible and intangible assets acquired in connection with the acquisition.

We have completed the process of integrating the financial management operations of Falcon into our financial management operations. We continue to engage in the integration of all other operational functions of Falcon into our operations.

Critical Accounting Policies

Critical accounting policies are those most important to the portrayal of our financial condition and results and that require the most exercise of our judgment. We consider the policies discussed under the following paragraphs to be critical for an understanding of our financial statements. Our significant accounting policies and application of these are discussed in detail in Note 2 to the Consolidated Financial Statements.

Accounting estimates

While preparing financial statements we make estimates and assumptions that affect the reported amount of assets, liabilities, disclosure of contingent liabilities at the balance sheet date and the reported amount of revenues and expenses for the reporting period. Financial reporting results rely on our estimate of the effect of certain matters that are inherently uncertain. Future events rarely develop exactly as forecast and the best estimates require adjustments, as actual results may differ from these estimates under different assumptions or conditions. We continually evaluate these estimates and assumptions based on the most recently available information. Specifically, we make estimates of:

the useful life of property, plant and equipment and intangible assets;

impairment of long-lived assets, including identifiable intangibles and goodwill;

our future obligations under employee retirement and benefit plans;

allowances for doubtful accounts receivable;

inventory write-downs;

allowances for sales returns; and

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valuation allowance against deferred tax assets.

We depreciate property, plant and equipment over their useful lives using the straight-line method. Estimates of useful life are subject to changes in economic environment and different assumptions. Assets under capital leases are amortized over their estimated useful life or lease term as appropriate. We review long-lived assets, including identifiable intangibles and goodwill, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We measure recoverability of assets to be held and used by comparing the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual outcomes could vary significantly from such estimates. Factors such as changes in the planned use of buildings, machinery or equipment or lower than anticipated sales for products with capitalized rights could result in shortened useful lives or impairment.

In accordance with applicable Indian laws, we provide a defined benefit retirement plan (Gratuity Plan) covering certain categories of employees. The Gratuity Plan provides a lump sum payment to vested employees at retirement or termination of employment, in an amount based on the respective employee s last drawn salary and the years of employment with us. Effective September 1, 1999, we established the Dr. Reddy s Laboratories Gratuity Fund, or the Gratuity Fund. Liabilities with regard to the Gratuity Plan are determined by an actuarial valuation, based upon which we make contributions to the Gratuity Fund. In calculating the expense and liability related to the plans, assumptions are made about the discount rate, expected rate of return on plan assets, withdrawal and mortality rates and rate of future compensation increases as determined by us, within certain guidelines. The assumptions used may differ materially from actual results, resulting in a probable significant impact to the amount of expense recorded by us.

We make allowance for doubtful accounts receivable, including receivables sold with recourse, based on the present and prospective financial condition of the customer and ageing of the accounts receivable after considering historical experience and the current economic environment. Actual losses due to doubtful accounts may differ from the allowances made. However, we believe that such losses will not materially affect our consolidated results of operations.

We provide for inventory obsolescence, expired inventory and inventories with carrying values in excess of realizable values based on our assessment of future demands, market conditions and our specific inventory management initiatives. If the market conditions and actual demands are less favorable than our estimates, additional inventory write-downs may be required. In all cases, inventory is carried at the lower of historical costs or realizable value.

Revenue recognition

Product sales

Revenue is recognized when significant risks and rewards in respect of ownership of products are transferred to the customer, generally stockists or formulations manufacturers, and when the following criteria are met:

Persuasive evidence of an arrangement exists;

The price to the buyer is fixed and determinable; and

Collectibility of the sales price is reasonably assured.

Revenue from domestic sales of formulation products is recognized on dispatch of the product to the stockist by our consignment and clearing and forwarding agent. Revenue from domestic sales of active pharmaceutical ingredients and intermediates is recognized on dispatch of products to customers from our factories. Revenue from export sales is recognized when significant risks and rewards are transferred to the customer, generally upon shipment of products.

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Revenue from product sales includes excise duties and is shown net of sales tax and applicable discounts and allowances.

Sales of formulations in India are made through clearing and forwarding agents to stockists. Significant risks and rewards in respect of ownership of formulation products is transferred by us when the goods are shipped to stockists from clearing and forwarding agents. Clearing and forwarding agents are generally compensated on a commission basis as a percentage of sales made by them.

Sales of active pharmaceutical ingredients and intermediates in India are made directly to the end customers, generally formulation manufacturers, from the factories. Sales of formulations and active pharmaceutical ingredients and intermediates outside India are made directly to the end customers, generally stockists or formulations manufacturers, from us or our consolidated subsidiaries.

We have entered into marketing arrangements with certain marketing partners for the sale of goods. Under such arrangements, we sell generic products to our marketing partners at a price agreed in the arrangement. Revenue is recognized on these transactions upon delivery of products to our marketing partners as all the conditions under Staff Accounting Bulletin No. 104 (SAB 104) are then met. Subsequently, the marketing partners remit an additional amount upon further sales made by them to the end customer. Such amount is determined as per the terms of the arrangement and is recognized by us when the realization is certain under the guidance given in SAB 104.

We have entered into certain dossier sales, licensing and supply arrangements that include certain performance obligations. Based on an evaluation of whether or not these obligations are inconsequential or perfunctory, we defer the upfront payments received towards these arrangements. Such deferred amounts are recognized in the income statement in the period in which we complete our remaining performance obligations.

Sales of generic products are recognized as revenue when the products are shipped and title and risk of loss passes on to the customers. Provisions for chargeback, rebates and medicaid payments are estimated and provided for in the year of sales. Such provisions are estimated based on average chargeback rates actually claimed over a period of time and average inventory holding by the wholesaler. A chargeback claim is a claim made by the wholesaler for the difference between the price at which the product is sold to customers and the price at which it is procured from us.

We account for sales returns in accordance with SFAS 48 by establishing an accrual in an amount equal to our estimate of sales recorded for which the related products are expected to be returned.

We deal in various products and operate in various markets and our estimate is determined primarily by our experience in these markets for the products. For returns of established products, we determine an estimate of the sales returns accrual primarily based on our historical experience regarding sales returns. Additionally other factors that we consider in our estimate of sales returns include levels of inventory in the distribution channel, estimated shelf life, product discontinuances, price changes of competitive products, introductions of generic products and introductions of competitive new products to the extent each of them has an impact on our business and markets. We consider all of these factors and adjust the accrual to reflect actual experience.

In respect of certain markets, we consider the level of inventory in the distribution channel and determine whether an adjustment to our sales return accrual is appropriate. For example, if the level of inventory in the distribution channel increases, we analyze the reasons for the increase and if the reasons indicate that sales returns will be larger than expected, we adjust the sales returns accrual. Further, the products and markets in which we operate have a rapid distribution cycle and therefore products are sold to the ultimate customer within a very short period of time. As a result, the impact of changes in levels of inventory in the distribution channel historically has not caused any material changes in our return estimates. Further, we have not had any significant product recalls/discontinuances within our

product portfolio, which could potentially require us to make material changes to our estimates.

With respect to new products that we introduce, they are either extensions of an existing line of products or in a general therapeutic category where we have historical experience. Our new product launches have

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historically been in therapeutic categories where established products exist and are sold either by us or our competitors. We have not yet introduced products in any new therapeutic category where the acceptance of such products is not known. The amount of sales returns for our newly launched products are not significantly different from current products marketed by us, nor are they significantly different from the sales returns of our competitors as we understand them to be based on industry publications and discussions with our customers. Accordingly, we do not expect sales returns for new products to be significantly different than expected sales returns of current products. We evaluate the sales returns of all of the products at the end of each reporting period and necessary adjustments, if any, are made. However, to date, no significant revision has been determined to be necessary.

License fees

Non-refundable milestone payments are recognized in the statement of income when earned, in accordance with the terms prescribed in the license agreement, and where we have no future obligations or continuing involvement pursuant to such milestone payment. Non-refundable up-front license fees are deferred and recognized when the milestones are earned, in proportion that the amount of each milestone earned bears to the total milestone amounts agreed in the license agreement. As the upfront license fees are a composite amount and cannot be attributed to a specific molecule, they are amortized over the development period. The milestone payments during the development period increase as the risk involved decreases. The agreed milestone payments reflect the progress of the development of the molecule and may not be spread evenly over the development period. Further, the milestone payments are a fair representation of the extent of progress made in the development of these molecules. Hence, the upfront license fees are amortized over the development period in proportion to the milestone payments received. In the event, the development is discontinued, the corresponding amount of deferred revenue is recognized in the income statement in the period in which the project is effectively terminated.

Service income

Income from services is recognized based on the services provided by the Company in accordance with the terms of the contract, as all the conditions under SAB 104 are met.

Stock Based Compensation

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

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

	Fiscal Year Ended March 31,			Three Months Ended June 30,
	2004	**2005**	**2006**	**2006**
Dividend yield	0.5%	0.5%	0.5%	0.5%
Expected life	42 - 78 months	12 - 78 months	12 - 78 months	12 - 78 months
Risk free interest rates	5.2 - 6.8%	4.5 - 6.7%	5.7 - 7.5%	4.5 - 7.5%

Volatility	45.7 - 50.7%	39.4 - 44.6%	23.4 - 36.9%	23.4 - 50.7%

At June 30, 2006, we had three stock-based employee compensation plans. Prior to April 1, 2003, we accounted for our plans under the recognition and measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost was reflected in previously reported results, as all options granted under those plans had an exercise price

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equal to the market value of the underlying common stock on the date of grant. During the first quarter of fiscal 2004, we adopted the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, for stock-based employee compensation. We have selected the retroactive method of adoption described in SFAS No. 148 Accounting for Stock Based Compensation Transition and Disclosure for all options granted after January 1, 1995. Consequently, for the years ended March 31, 2004, 2005 and 2006, an amount of Rs.122.2 million, Rs.144.0 million and Rs.162.2 million respectively, has been recorded as total employee stock based compensation expense.

During fiscal 2004, Aurigene Discovery Technologies Limited adopted two stock based employee compensation plans. We have accounted for these plans under SFAS 123, using the Black-Scholes option pricing model to determine the fair value of each option grant.

Prior to April 1, 2006, we accounted for our stock-based compensation plans under SFAS 123. On April 1, 2006, we adopted SFAS No. 123R (revised 2004), Share Based Payment (SFAS No. 123(R)) under the modified-prospective application. Under the modified-prospective-application, SFAS No. 123(R)applies to new awards and to awards modified, repurchased, or cancelled after adoption.

SFAS.No. 123(R) requires that an estimate of forfeitures be made when the awards are granted. While adopting SFAS 123(R), we have estimated the forfeiture of the outstanding unvested stock options as of April 1, 2006 and have recognized an income on account of cumulative effect adjustments for estimating forfeitures rather than actual forfeitures of Rs.14.8 million. For the three months ended June 30, 2006, Rs.31.03 million has been recorded as total employee stock based compensation expense.

Deferred Taxes

Deferred taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits the future realization of which is uncertain.

Functional Currency

Our foreign subsidiaries have different functional currencies, determined based on the currency of the primary economic environment in which they operate. For subsidiaries that operate in a highly inflationary economy, the functional currency is determined as the Indian rupee. Due to various subsidiaries operating in different geographic locations, a significant level of judgment is involved in evaluating the functional currency for each subsidiary.

In respect of our foreign subsidiaries which market our products in their respective countries/regions, the functional currency has been determined as the Indian rupee, based on an individual and collective evaluation of the various economic factors listed below.

The operations of these foreign subsidiaries are largely restricted to importing finished goods from us in India, sale of these products in the foreign country and remitting the sale proceeds to us. The cash flows realized from sale of goods are readily available for remittance to us and cash is remitted to us on a regular basis. The costs incurred by these subsidiaries are primarily the cost of goods imported from us. The financing of these subsidiaries is done directly or indirectly by us.

In respect of other subsidiaries, the functional currency is determined as the local currency, being the currency of the primary economic environment in which the subsidiary operates.

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Income Taxes

As part of the process of preparing our financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. We are subject to tax assessments in each of these jurisdictions. A tax assessment can involve complex issues, which can only be resolved over extended time periods. Additionally, the provision for income tax is calculated based on our assumptions as to our entitlement to various benefits under the applicable tax laws in the jurisdictions in which we operate. The entitlement to such benefits depends upon our compliance with the terms and conditions set out in these laws. Although we have considered all these issues in estimating our income taxes, there could be an unfavorable resolution of such issues that may affect our results of operations.

We also assess the temporary differences resulting from differential treatment of certain items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recognized in our consolidated financial statements. We also assess our deferred tax assets on an ongoing basis by assessing our valuation allowance we consider the future taxable incomes and the feasibility of tax planning initiatives. If we estimate that the deferred tax assets cannot be realized at the recorded value, a valuation allowance is created with a charge to the statement of income in the period in which such assessment is made.

Litigation

We are involved in various patent challenges, product liability, commercial litigation and claims, investigations and other legal proceedings that arise from time to time in the ordinary course of our business. We assess in consultation with our counsel, the need to accrue a liability for such contingencies and record a reserve when we determine that a loss related to a matter is both probable and reasonably estimable. Because litigation and other contingencies are inherently unpredictable, our assessment can involve judgments about future events.

Operating results

Financial Data

The selected consolidated financial data presented below for fiscal year 2006 and the three months ended June 30, 2006 reflect the acquisition of Falcon and betapharm and therefore the results for fiscal year 2006 are not comparable to the results for prior fiscal years and periods.

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

	Fiscal Year Ended March 31,				Three Months Ended June 30,		
egment	**2004**	**2005**	**2006**	**2006**	**2005**	**2006**	**2006**
						(Unaudited)	
			(Rs. in millions, U.S.$ in thousands)				
ormulations	Rs. 7,507.5	Rs. 7,822.9	Rs. 9,925.9	U.S.$ 223,155.5	Rs. 2,578.4	Rs. 3,336.8	U.S.$ 72,745
ctive harmaceutical ngredients and ntermediates	7,628.5	6,944.5	8,238.0	185,208.1	1,909.7	2,300.8	50,159
Generics	4,337.5	3,577.4	4,055.8	91,181.7	878.2	6,737.2	146,876
	411.0	527.1	691.1	15,536.7	153.4	198.0	4,317

Diagnostics, critical care and biotechnology							
Drug discovery	288.4					25.3	551
Custom pharmaceuticals services	113.1	311.6	1,326.8	29,829.8	71.7	1,418.3	30,920
Others	105.9	47.5	29.4	660.3		33.0	719
Total revenues	Rs. 20,103.5	Rs. 19,519.4	Rs. 24,267.0	U.S.$ 545,572.1	Rs. 5,591.4	Rs. 14,049.4	U.S.$ 306,287

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The following table sets forth, for the periods indicated, our cost of revenues by segment:

Segment	Fiscal Year Ended March 31, 2004	2005	2006	2006	Three Months Ended June 30, 2005	2006	2006
						(Unaudited)	
	(Rs. in millions, U.S.$ in thousands)						
Formulations	Rs. 2,577.7	Rs. 2,492.8	Rs. 3,084.1	U.S.$ 69,337.6	Rs. 755.7	Rs. 985.6	U.S.$ 21,487
Active pharmaceutical ingredients and intermediates	5,102.4	5,013.5	5,916.5	133,107.1	1,347.8	1,687.5	36,789
Generics	1,324.4	1,620.3	2,168.8	48,759.0	448.8	4,139.2	90,238
Diagnostics, critical care and biotechnology	206.9	176.5	235.9	5,302.8	74.1	79.1	1,724
Drug discovery						25.3	552
Custom pharmaceuticals services	57.6	82.6	999.4	22,469.3	36.4	999.1	21,781
Others	68.3	0.1	12.6	282.6	0.1	44.7	974
Total cost of revenues	Rs. 9,337.3	Rs. 9,385.8	Rs. 12,417.3	U.S.$ 279,168	Rs. 2,662.9	Rs. 7,960.5	U.S.$ 173,545

The following table sets forth, for the periods indicated, our gross profit by segment:

Segment	Fiscal Year Ended March 31, 2004	2005	2006	2006	Three Months Ended June 30, 2005	2006	2006
						(Unaudited)	
	(Rs. in millions, U.S.$ in thousands)						
Formulations	Rs. 4,929.8	Rs. 5,330.1	Rs. 6,841.8	U.S.$ 153,817.8	Rs. 1,822.7	Rs. 2,351.2	U.S.$ 51,258
Active pharmaceutical ingredients and intermediates	2,526.1	1,931.0	2,321.5	52,191.0	561.9	613.3	13,371
Generics	3,013.1	1,957.1	1,887.0	42,422.8	429.4	2,598.0	56,638
Diagnostics, critical care and biotechnology	204.1	350.6	455.2	10,233.9	79.3	118.9	2,592
Drug discovery		288.4					
Custom pharmaceuticals services	55.5	229.0	327.4	7,360.5	35.3	419.2	9,139
Others	37.6	47.4	16.8	377.6		(11.7)	(255)

Total gross profit	Rs. 10,766.2	Rs. 10,133.6	Rs. 11,849.7	U.S.$ 266,403.6	Rs. 2,928.6	Rs. 6,088.9	U.S.$ 132,743	

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 previous year. Cost of revenues and gross profit by segment are shown as a percentage of that segment s revenues.

	Percentage of Total Revenue Fiscal Year Ended March 31,			Percentage Increase (Decrease)		Percentage of Total Revenue Three Months Ended June 30,		Percentage Increase (Decrease) June 2005 to June 2006
	2004	2005	2006	2004 to 2005	2005 to 2006	2005	2006	
Income Statement Data:								
Revenues by segment:								
Formulations	37.3	40.1	40.9	4.2	26.9	46.1	23.7	29.4
Active pharmaceutical ingredients and intermediates	37.9	35.6	33.9	(9.0)	18.6	34.2	16.4	20.5
Generics	21.6	18.3	16.7	(17.5)	13.4	15.7	48.0	667.2
Diagnostics, critical care and biotechnology	2.0	2.7	2.8	28.2	31.1	2.7	1.4	29.1
Drug discovery		1.5			(100.0)	0.0	0.2	
Custom pharmaceutical services	0.6	1.6	5.5	175.5	325.8	1.3	10.1	1,879.0
Other	0.6	0.2	0.2	(55.2)	(38.1)	0.0	0.2	
Total revenues	100.0	100.0	100.0	(2.9)	24.3	100.0	100.0	151.3

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	Percentage of Total Revenue Fiscal Year Ended March 31,			Percentage Increase (Decrease)		Percentage of Total Revenue Three Months Ended June 30,		Percentage Increase (Decrease) June 2005 to June 2006
	2004	2005	2006	2004 to 2005	2005 to 2006	2005	2006	
Cost of revenues by segment:								
Formulations	34.3	31.9	31.1	(3.3)	23.7	29.3	29.5	30.4
Active pharmaceutical ingredients and intermediates	66.9	72.2	71.8	(1.7)	18.0	70.6	73.3	25.2
Generics	30.5	45.3	53.5	22.3	33.8	51.1	61.4	822.2
Diagnostics, critical care and biotechnology	50.4	33.5	34.1	(14.7)	33.6	48.3	40.0	6.9
Drug discovery							100.0	
Custom pharmaceutical services	50.9	26.5	75.3	43.4	1110.6	50.9	70.4	2,643.1
Other	64.4		42.8	(100.0)			135.4	
Total cost of revenues	46.4	48.1	51.2	0.5	32.3	47.6	56.7	198.9
Gross profit by segment:								
Formulations	65.7	68.1	68.9	8.1	28.4	70.7	70.5	29.0
Active pharmaceutical ingredients and intermediates	33.1	27.8	28.2	(23.6)	20.2	29.4	26.7	9.1
Generics	69.5	54.7	46.5	(35.0)	(3.6)	48.9	38.6	505.1
Diagnostics, critical care and biotechnology	49.6	66.5	65.9	71.8	29.8	51.7	60.0	49.9
Drug discovery		100.0			(100.0)	0.0	0.0	
Custom pharmaceutical services	49.1	73.5	24.7	312.3	43.0	49.2	29.6	1,089.3
Other	35.6	100.0	57.2	26.0	(64.6)	0.0	(35.3)	
Total gross profit	53.5	51.8	48.8	(5.9)	16.9	52.4	43.3	107.9
Operating expenses:								
Selling, general and administrative expenses	32.5	34.7	33.1	3.5	18.5	34.9	23.8	71.3
Research and development expenses	9.9	14.4	8.9	40.8	(23.2)	9.2	3.8	3.5
Amortization expenses	1.9	1.8	1.7	(8.6)	20.0	1.7	2.8	305.7
Foreign exchange (gain)/loss	(1.4)	2.5	0.5		(74.2)	1.2	0.5	13.3
Other operating expense/(income)	0.4	0.0	(1.3)	(92.8)		0.7	(0.5)	(288.4)

Total operating expenses	43.4	53.4	42.9	19.6	(0.1)	47.7	30.4	60.2
Operating income/(loss)	10.2	(1.5)	5.9			4.7	12.9	594.0
Equity in loss of affiliates	(0.2)	(0.3)	(0.4)	31.0	51.9	(0.3)	(0.1)	5.8
Other (expense)/income, net	2.7	2.3	2.2	(15.2)	17.5	3.1	(1.4)	(213.9)
Income before income taxes and minority interest	12.6	0.5	7.8	(95.8)	1663.4	7.5	11.4	282.3
Income tax benefit/(expenses)	(0.3)	0.5	(1.1)			(1.3)	(1.5)	186.2
Minority interest		0.1		195.5	(100.8)	0.0	0.0	(53.7)
Net income	12.3	1.1	6.7	(91.5)	671.1	6.2	9.9	302.4

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Revenues

Total revenues increased by 151.3% to Rs.14,049.4 million for the three months ended June 30, 2006, as compared to Rs.5,591.4 million for the three months ended June 30, 2005, due to an increase in revenues across all business segments, revenues from sales of authorized generics as well as contributions from betapharm and Falcon. Excluding revenues from Falcon and betapharm, revenues increased by 93.3% to Rs.10,810.7 million. betapharm contributed Rs.1,997.6 million and Falcon contributed Rs.1,241.1 million to our revenues for the three months ended June 30, 2006. For the three months ended June 30, 2006, we received 34.6% of our revenues from North America (United States and Canada), 17.0% of our revenues from India, 10.4% of our revenues from Russia and other former Soviet Union countries, 23.1% of our revenues from Europe and 14.8% of our revenues from other countries.

Revenues from sales in North America increased to Rs.4,856.5 million for the three months ended June 30, 2006, as compared to Rs.661.1 million for the three months ended June 30, 2005, due to an increase

in revenues in our generics segment, our active pharmaceutical ingredients and intermediates (API) segment and our custom pharmaceutical services (CPS) segment. Revenues from sales in Russia and other former Soviet Union countries increased by 45.8% to Rs.1,464.0 million for the three months ended June 30, 2006, as compared to Rs.1,004.0 million for the three months ended June 30, 2005. The increase was driven by growth in Russia, Ukraine and Kazakhstan. Revenues from sales in Europe increased to Rs.3,247.0 million for the three months ended June 30, 2006, as compared to Rs.1,032.9 million for the three months ended June 30, 2005, due to growth in our generics segment as well as our API segment. Revenues from sales in India increased by 14.8% to Rs.2,392.5 million for the three months ended June 30, 2006, as compared to Rs.2,084.8 million for the three months ended June 30, 2005, due to an increase of revenues in our formulations segment as well as our API segment.

Formulations. For the three months ended June 30, 2006, we received 23.7% of our total revenues from the formulations segment, as compared to 46.1% for the three months ended June 30, 2005. Revenues in this segment increased by 29.4% to Rs.3,336.8 million for the three months ended June 30, 2006, as compared to Rs.2,578.4 million for the three months ended June 30, 2005.

Revenues from sales of formulations in India constituted 48.4% of our total formulations revenues for the three months ended June 30, 2006, as compared to 55.0% for the three months ended June 30, 2005. Revenues from sales of formulations in India increased by 14.0% to Rs.1,615.1 million for the three months ended June 30, 2006, as compared to Rs.1,417.2 million for the three months ended June 30, 2005. The increase in revenues was on account of an increase in sales volumes of Nise, our brand of nimesulide, Omez, our brand of omeprazole, Reclimet, our brand of gliclazide and metformin, and Stamlo Beta, our brand of amlodipine and atenolol. New products launched in the three months ended June 30, 2006 accounted for Rs.35.9 million of revenues.

Revenues from sales of formulations outside India increased by 48.3% to Rs.1,721.7 million for the three months ended June 30, 2006, as compared to Rs.1,161.2 million for the three months ended June 30, 2005. Revenues from sales of formulations in Russia accounted for 63.6% of our formulation revenues outside India for the three months ended June 30, 2006, as compared to 64.9% for the three months ended June 30, 2005. Revenues from sales of formulations in Russia increased by 45.2% to Rs.1,094.4 million for the three months ended June 30, 2006, as compared to Rs.753.8 million for the three months ended June 30, 2005. The increase was on account of an increase in sales volume of our key brands such as Nise, our brand of nimesulide, Ketorol, our brand of ketorolac and Omez, our brand of omeprazole on account of marketing activities and increase in sales to hospitals. Revenues from sales to other former Soviet Union countries increased by 55.5% to Rs.320.2 million for the three months ended June 30, 2006 as compared to Rs.205.9 million for the three months ended June 30, 2005, primarily driven by an increase in revenues in Ukraine, Kazakhstan and Uzbekistan and partially offset by a decrease in sales volume in Belarus.

Active Pharmaceutical Ingredients and Intermediates. For the three months ended June 30, 2006, we received 16.4% of our total revenues from our API segment, as compared to 34.2% for the three months ended June 30, 2005. Revenues in this segment increased by 20.5% to Rs.2,300.8 million for the three months ended June 30, 2006, as compared to Rs.1,909.7 million for the three months ended June 30, 2005.

During the three months ended June 30, 2006, revenues from sales in India accounted for 28.3% of our revenues from this segment, as compared to 31.8% for the three months ended June 30, 2005. Revenues from sales in India increased by 5.6% to Rs.660.8 million for the three months ended June 30, 2006, as compared to Rs.625.5 million for the three months ended June 30, 2005. This increase was primarily due to an increase in sales of ciprofloxacin, ranitidine and terbinafine due to combination of price and volume growth.

Revenues from sales outside India increased by 25.1% to Rs.1,675.7 million for the three months ended June 30, 2006, as compared to Rs.1,339.2 million for the three months ended June 30, 2005. Revenues from sales in other markets increased by 27.3% to Rs.816.1 million for the three months ended June 30, 2006, as compared to

Rs.641.3 million for the three months ended June 30, 2005, primarily due to growth in sales volumes in the key markets of Israel, Syria, South Korea and Peru. Revenues from sales in Europe increased by 21.2% to Rs.439.1 million for the three months ended June 30, 2006, as compared to Rs.362.3 million for the three months ended June 30, 2005. The increase in revenues was mainly on account of the growth of sales

volumes of our key products sumatriptan, doxazosin and naproxen sodium. Revenues from sales in North America (United States and Canada) increased by 25.3% to Rs.420.4 million for the three months ended June 30, 2006, as compared to Rs.335.6 million for the three months ended June 30, 2005. This growth was largely driven by an increase in sales of development products, which are small quantities of products sold to customers for use by such customers for the development of finished dosage products.

Generics. For the three months ended June 30, 2006, we received 48.0% of our total revenues from this segment, as compared to 15.7% for the three months ended June 30, 2005. Revenues increased to Rs.6,737.2 million for the three months ended June 30, 2006, as compared to Rs.878.2 million for the three months ended June 30, 2005. Revenues in Europe increased to Rs.2,432.9 million for the three months ended June 30, 2006, as compared to Rs.571.3 million for the three months ended June 30, 2005. Revenues on account of the acquisition of betapharm and sales of products acquired from Laboratories Litaphar, S.A., or Litaphar, in Spain together contributed Rs.2,006.8 million. The prices of our key products amlopidine maleate and omeprazole declined in the United Kingdom, resulting in a 25.4% decline in revenues to Rs.426.1 million for the three months ended June 30, 2006 from Rs.571.3 million for the three months ended June 30, 2005. Revenues in North America (United States and Canada) increased to Rs.4,304.1 million for the three months ended June 30, 2006, as compared to Rs.306.8 million for the three months ended June 30, 2005. This growth was primarily driven by the launch of three key products during the quarter. Simvastatin and finasteride, which were both launched as authorized generic versions of Merck & Co., Inc. s, or Merck s, Zocor® and Proscar® respectively, together contributed net revenues of Rs.3,353.0 million. Fexofenadine, which was launched at risk in April, contributed Rs.503.0 million in revenues. Excluding revenues from authorized generics and fexofenadine, revenues in the generics segment increased by 42.5% to Rs.437.1 million.

Critical Care and Biotechnology. For the three months ended June 30, 2006, we received 1.4% of our total revenues from this segment as compared to 2.7% for the three months ended June 30, 2005. Revenues in this segment increased by 29.1% to Rs.198.0 million for the three months ended June 30, 2006, as compared to Rs.153.4 million for the three months ended June 30, 2005. Revenues in this segment increased primarily due to an increase in sales volumes in our critical care division by Rs.25.5 million driven by an increase in sales volumes in India due to increased sales of our products Cytogem and Dacotin, and an increase in sales in our biotechnology division by Rs.19.0 million.

Custom Pharmaceutical Services. Revenues from this segment increased to Rs.1,418.3 million for the three months ended June 30, 2006 from Rs.71.7 million for the three months ended June 30, 2005. Revenues on account of the Falcon acquisition were Rs.1,241.1 million for the three months ended June 30, 2006. Excluding revenues from Falcon, revenues increased to Rs.177.2 million for the three months ended June 30, 2006 from Rs.71.7 million for the three months ended June 30, 2005. This revenue increase was driven by growth in the customer base in this segment.

Others. For the three months ended June 30, 2006, other revenues consisted of service income from collaborative discovery research services of Rs.33.0 million as compared to no revenues for the three months ended June 30, 2005.

Cost of revenues

Cost of revenues increased by Rs.5,297.6 million to Rs.7,960.5 million for the three months ended June 30, 2006, as compared to Rs.2,662.9 million for the three months ended June 30, 2005. Cost of revenues as a percentage of total revenues was 56.7% for the three months ended June 30, 2006, as compared to 47.6% for the three months ended June 30, 2005. Excluding revenues and cost of revenues from betapharm and Falcon, cost of revenues increased to Rs.6,134.9 million, which was 56.7% of total revenues for the three months ended June 30, 2006, as compared to 47.6% for the three months ended June 30, 2005.

Formulations. Cost of revenues in this segment was 29.5% of formulations revenues for the three months ended June 30, 2006, as compared to 29.3% of this segment s revenues for the three months ended June 30, 2005. Cost of

revenues in absolute terms increased by 30.4% to Rs.985.5 million for the three months ended June 30, 2006, as compared to Rs.755.7 million for the three months ended June 30, 2005. The marginal increase in cost of revenues as a percentage of formulations revenues was primarily on account of an

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increase in raw material costs, partially offset by the positive impact of higher overall sales and a higher proportion of sales outside India. Sales outside India generally have higher prices and higher margins as compared to sales within India.

Active Pharmaceutical Ingredients and Intermediates. Cost of revenues in this segment increased to 73.3% of this segment s revenues for the three months ended June 30, 2006, as compared to 70.6% of this segment s revenues for the three months ended June 30, 2005. Cost of revenues increased by 25.2% to Rs.1,687.5 million for the three months ended June 30, 2006, as compared to Rs.1,347.8 million for the three months ended June 30, 2005. The increase in cost of revenues as a percentage of revenues was due to a relatively higher proportion of sales from lower margin products compared to three months ended June 30, 2005.

Generics. Cost of revenues in this segment was 61.4% of this segment s revenues for the three months ended June 30, 2006, as compared to 51.1% for the three months ended June 30, 2005. Cost of revenues increased to Rs.4,139.2 million for the three months ended June 30, 2006, as compared to Rs.448.8 million for the three months ended June 30, 2005. As a percentage of revenues, cost of revenue increased primarily on account of revenues from authorized generic product sales, which accounted for 49.7% of total revenues from this segment and which earn gross margins significantly below average gross margins for this segment, as well as a decline in the prices of omeprazole and amlodipine maleate in the U.K.

Critical Care and Biotechnology. Cost of revenues in this segment decreased to 40.0% of this segment s revenues for the three months ended June 30, 2006, as compared to 48.3% for the three months ended June 30, 2005. The decrease in cost of revenues as a percentage of revenues was on account of a decline in the costs of raw materials.

Custom Pharmaceutical Services. Cost of revenues in this segment increased to 70.4% of this segment s revenue for the three months ended June 30, 2006, as compared to 50.9% for the three months ended June 30, 2005. This increase was primarily on account of an increase in sales of lower margin products and a decrease in sales of higher margin products. Cost of revenues increased to Rs.999.1 million for the three months ended June 30, 2006 from Rs.36.4 million for the three months ended June 30, 2005. Cost of revenues at Falcon for the three months ended June 30, 2006 was Rs.877.5 million. Excluding Falcon, cost of revenues increased to Rs.121.6 million for the three months ended June 30, 2006 from Rs.36.4 million for the three months ended June 30, 2005.

Gross profit

As a result of the trends described in Revenues and Cost of revenues above, our gross profit increased by 107.9% to Rs.6,088.9 million for the three months ended June 30, 2006, from Rs.2,928.6 million during the three months ended June 30, 2005. Excluding profit from betapharm and Falcon, gross profit increased by 59.7% to Rs.4,675.8 million for fiscal 2006. Gross margin, including acquisitions, was 43.3% for the three months ended June 30, 2006, as compared to 52.4% for the three months ended June 30, 2005.

Gross margin of the formulations segment was at 70.5% for the three months ended June 30, 2006, as compared to 70.7% for the three months ended June 30, 2005. The gross margin in our active pharmaceutical ingredients and intermediates segment decreased to 26.7% for the three months ended June 30, 2006, as compared to 29.4% for the three months ended June 30, 2005. The gross margin for our generics segment decreased to 38.6% for the three months ended June 30, 2006, as compared to 48.9% for the three months ended June 30, 2005. The gross margin for our critical care and biotechnology segment increased to 60.0% for the three months ended June 30, 2006, as compared to 51.7% for the three months ended June 30, 2005. The gross margin for our custom pharmaceutical services segment decreased to 29.6% for the three months ended June 30, 2006, as compared to 49.2% for the three months ended June 30, 2005.

Selling, general and administrative expenses

Selling, general and administrative expenses as a percentage of total revenues were 23.8% for the three months ended June 30, 2006, as compared to 34.9% for the three months ended June 30, 2005. Selling,

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general and administrative expenses increased by 71.3% to Rs.3,346.1 million for the three months ended June 30, 2006, as compared to Rs.1,953.8 million for the three months ended June 30, 2005. Selling, general and administrative expenses related to betapharm and Falcon, and the products acquired from Litaphar, accounted for Rs.1,150.6 million of these expenses. Excluding expenses related to betapharm, Falcon and the products acquired from Litaphar, selling, general and administrative expenses increased by 12% to Rs.2,195.5 million. This increase was largely due to an increase in marketing expenses and employee costs. Marketing expenses increased by 27.0% to Rs.869.6 million for the three months ended June 30, 2006 from Rs.682.4 million for the three months ended June 30, 2005 primarily due to an increase in shipping costs in our generics and formulations segments, on account of higher sales, as well as an increase in selling expenses in our formulations segment due to higher marketing activities. Employee expenses increased by 8% to Rs.662.5 million for the three months ended June 30, 2006, from Rs.615.4 million for the three months ended June 30, 2005, primarily due to an increase in the total number of our employees.

Research and development expenses, net

Research and development expenses increased by 3.5% to Rs.532.9 million for the three months ended June 30, 2006, as compared to Rs.514.7 million for the three months ended June 30, 2005. As a percentage of total revenues, research and development expenses were 3.8% for the three months ended June 30, 2006, as compared to 9.2% for the three months ended June 30, 2005. Under the terms of our research and development partnership agreement with I-VEN Pharma Capital Limited or I-VEN, we received U.S.$22.5 million in March 2005 to be applied to research and development costs in our generics segment, of which U.S.$3.4 million was recognized as a reduction in research and development expense for the three months ended June 30, 2006, as compared to U.S.$1.7 million recognized for the three months ended June 30, 2005. Further, during the three months ended June 30, 2006, our research and development expenses in our drug discovery segment were lower on account of the reimbursement of expenses incurred by us on the development of New Chemical Entities or NCEs, assigned to Perlecan Pharma Private Limited or Perlecan, in terms of our research and development arrangement entered into during the year ended March 31, 2006. Excluding the effect of the above arrangements from I-VEN and Perlecan, expenses increased primarily on account of expenses incurred towards product development in our generics segment as well as an increase in clinical trials expenses in our discovery segment.

Amortization expenses

Amortization expenses increased to Rs.387.8 million for the three months ended June 30, 2006, as compared to Rs.95.6 million for the three months ended June 30, 2005. This increase was primarily on account of amortization expenses of Rs.317.9 million associated with the intangibles acquired in the betapharm and Falcon acquisitions.

Foreign exchange loss

Foreign exchange loss was Rs.74.5 million for the three months ended June 30, 2006, as compared to a lower loss of Rs.65.7 million for the three months ended June 30, 2005. This was on account of higher currency translation loss and higher mark to market loss on our outstanding derivative contracts for the three months ended June 30, 2006 due to higher volatility in major international currencies. The rupee depreciated by Rs.1.43 during the three months ended June 30, 2006, as compared to appreciation of Rs.0.19 for the three months ended June 30, 2005.

Other operating income/expense, net

Other operating income was at Rs.69.5 million for the three months ended June 30, 2006, as compared to an expense of Rs.36.9 million for the three months ended June 30, 2005. Other operating income/expense, net for the three months ended June 30, 2006 includes a portion of consideration related to the sale of our finished dosage facility at Goa in the amount of Rs.63.0 million, which was contingent upon certain transition activities being performed by us.

On completion of all of our obligations under the agreement, the final portion of the sale consideration was recognized during the three months ended June 30, 2006.

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Operating income

As a result of the foregoing, our operating income increased to Rs.1,817.2 million for the three months ended June 30, 2006, as compared to Rs.261.8 million for the three months ended June 30, 2005.

Other expense/income, net

For the three months ended June 30, 2006 our other expense, net of other income was Rs.196.7 million, as compared to other income, net of expenses of Rs.172.6 million for the three months ended June 30, 2005. This change was on account of the fact that for the three months ended June 30, 2006, we recorded net interest expense of Rs.253.5 million on borrowed funds as a result of increased borrowings for acquisition of betapharm as compared to the three months ended June 30, 2005, while in the three months ended June 30, 2005 we recorded net interest income of Rs.152.7 million.

Equity in loss of affiliates

Equity in loss of affiliates was Rs.15.3 million for the three months ended June 30, 2006, compared to Rs.14.5 million for the three months ended June 30, 2005. The marginal increase in loss was on account of higher losses at Perlecan which was partially offset due to lower losses in Kunshan Rotam Reddy Pharmaceutical Co. Limited.

Income before income taxes and minority interest

As a result of the foregoing, income before income taxes and minority interest increased to Rs.1,605.2 million for the three months ended June 30, 2006, as compared to Rs.419.9 million for the three months ended June 30, 2005.

Income tax

We recorded an income tax expense of Rs.207.5 million for the three months ended June 30, 2006, as compared to an expense of Rs.72.5 million for the three months ended June 30, 2005. The increase in income tax expense in absolute value was on account of an increase in taxable profits during the current quarter as compared to the three months ended June 30, 2005. The effective tax rate decreased to 12.9% for the three months ended June 30, 2006 from 17.3% for the three months ended June 30, 2005. This reduction in the effective tax rate was primarily on account of utilization of carry forward losses in subsidiaries due to profits generated from operations. A full valuation allowance was created on the deferred tax asset on such carry forward losses of the subsidiaries due to a history of past losses. Therefore, while sufficient profits were generated from operations during the three months ended June 30, 2006 there was relatively lower taxable income thereby resulting in a lower effective tax rate.

Minority interest

Minority interest was at Rs.0.05 million for the three months ended June 30, 2006, as compared to Rs.0.1 million for the three months ended June 30, 2005. This represents our share of profits in the results of Dr. Reddy s Laboratories (Proprietary) Limited, our subsidiary in South Africa.

Net income

As a result of the above, our net income increased to Rs.1,397.6 million for the three months ended June 30, 2006, as compared to Rs.347.3 million for the three months ended June 30, 2005.

Fiscal Year Ended March 31, 2006 Compared to Fiscal Year Ended March 31, 2005

Revenues

Total revenues increased by 24.3% to Rs.24,267.0 million in fiscal 2006, as compared to Rs.19,519.4 million in fiscal 2005, primarily due to an increase in revenues in our formulations segment and our active

pharmaceutical ingredients and intermediates segment, as well as new revenues contributed by the acquired Falcon business in Mexico (starting December 30, 2005) and betapharm in Germany (starting March 3, 2006). Excluding revenues from the acquired Falcon business and betapharm, revenues increased by 16.6% to Rs.22,758.2 million. betapharm contributed Rs.704.9 million and the acquired Falcon business contributed Rs.804.0 million to our revenues for fiscal 2006. In fiscal 2006, we received 16.4% of our revenues from North America (United States and Canada), 34.1% of our revenues from India, 14.7% of our revenues from Russia and other countries of the former Soviet Union, 17.8% of our revenues from Europe and 17.0% of our revenues from other countries.

Revenues from sales to Russia and other former Soviet Union countries increased by 27.9% to Rs.3,559.5 million in fiscal 2006, as compared to Rs.2,782.2 million in fiscal 2005. The increase was primarily due to an increase in sales of our major brands such as Nise, our brand of nimesulide, Keterol, our brand of ketorolac tromethamine, Ciprolet, our brand of ciprofloxacin, and Omez, our brand of omeprazole. Revenues from sales in India increased by 23.6% to Rs.8,272.5 million in fiscal 2006, as compared to Rs.6,693.0 million in fiscal 2005, primarily due to an increase in revenues in our formulations and active pharmaceutical ingredients and intermediates segments. Revenues from sales to Europe increased by 50.8% to Rs.4,326.3 million in fiscal 2006, as compared to Rs.2,868.2 million in fiscal 2005, primarily as a result of an increase in revenues from sales in our generics segment and active pharmaceutical ingredients and intermediates segment, as well as new revenues contributed from betapharm. Excluding betapharm revenues, revenues from sales to Europe increased by 26.3% to Rs.3,621.4 million in fiscal 2006. Revenues from sales to North America decreased by 8.4% to Rs.3,983.9 million in fiscal 2006, as compared to Rs.4,349.2 million in fiscal 2005, primarily due to a decrease in sales in our generics segment and active pharmaceutical ingredients and intermediates segment.

Formulations. In fiscal 2006, we received 40.9% of our total revenues from the formulations segment, as compared to 40.1% in fiscal 2005. Revenues in this segment increased by 26.9% to Rs.9,926.0 million in fiscal 2006, as compared to Rs.7,822.9 million in fiscal 2005.

Revenues in India constituted 55.7% of our total formulations revenues in fiscal 2006, which is the same percentage it constituted in fiscal 2005. Revenues from sales of formulations in India increased by 26.7% to Rs.5,525.7 million in fiscal 2006, as compared to Rs.4,360.2 million in fiscal 2005. This was driven by an increase in revenues from increased sales volumes of our key brands such as Omez, our brand of omeprazole, Nise, our brand of nimesulide, Stamlo our brand of amlodipine, and Recliment, our brand of gliclazide and metformin. The increase was also attributable to our focused marketing strategy, in which we reorganized our Indian sales force by therapeutic categories, as well as the positive impact of inventory restocking by stockists and retailers after implementation of India s Value Added Tax system in April 2005.

Revenues from sales of formulations outside India increased by 27.1% to Rs.4,400.3 million in fiscal 2006, as compared to Rs.3,462.7 million in fiscal 2005. Revenues from sales of formulations in Russia accounted for 58.7% of our formulation revenues outside India in fiscal 2006, as compared to 60.9% in fiscal 2005. Revenues from sales of formulations in Russia increased by 22.6% to Rs.2,583.1 million in fiscal 2006, as compared to Rs.2,107.2 million in fiscal 2005. The increase was primarily due to an increase in sales volumes as a result of marketing activities as well as introduction of the DLO program pursuant to which the Russian government purchases drugs for free distribution to low income individuals. Revenues from sales to other countries of the former Soviet Union increased by 39.4% to Rs.826.8 million for fiscal 2006 as compared to Rs.593.3 million for fiscal 2005, primarily driven by an increase in revenues in the Ukraine and Kazakhstan. Revenues from sales to the rest of the world increased by 19.2% to Rs.731.1 million in fiscal 2006, as compared to Rs.613.1 million in fiscal 2005. This increase was primarily due to higher revenues from sales to South Africa, Myanmar, Vietnam and Jamaica and was offset by a decrease in revenues from sales to Venezuela and Sri Lanka.

Active Pharmaceutical Ingredients and Intermediates. In fiscal 2006, we received 33.9% of our total revenues from this segment as compared to 35.6% in fiscal 2005. Revenues in this segment increased by 18.6% to Rs.8,238.1 million in fiscal 2006, as compared to Rs.6,944.5 million in fiscal 2005.

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During fiscal 2006, revenues from sales in India accounted for 27.8% of our revenues from this segment, as compared to 28.4% in fiscal 2005. Revenues from sales in India increased by 16.1% to Rs.2,296.4 million in fiscal 2006, as compared to Rs.1,972.1 million in fiscal 2005. This increase was primarily due to an increase in sales volumes of ciprofloxacin, sparfloxacin and ranitidine as well as an increase in the sales price of ciprofloxacin.

Revenues from sales outside India increased by 19.5% to Rs.5,941.7 million in fiscal 2006, as compared to Rs.4,972.5 million in fiscal 2005. Revenues from sales in Europe increased by 30.2% to Rs.1,420.9 million in fiscal 2006, as compared to Rs.1,091.2 million in fiscal 2006, primarily due to an increase in revenues from new product launches. Revenues from sales in North America (United States and Canada) decreased by 10.5% to Rs.1,655.0 million in fiscal 2006, as compared to Rs.1,849.0 million in fiscal 2005, primarily due to a decrease in sales of ranitidine Hcl Form 1. Revenues from sales in the rest of the world increased from Rs.2,032.3 million in fiscal 2005 to Rs.2,865.7 million in fiscal 2006, driven primarily by the growth of sales in Israel, Turkey, Mexico and Brazil.

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