



MANAGING CHALLENGES

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ANNUAL REPORT 2002 - 2003



DR. REDDY'S

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## WELCOME TO THE CHALLENGE

. AND THE CHALLENGE IS THE JOURNEY TO THE VISION OF BEING A DISCOVERY-LED GLOBAL PHARMACEUTICAL COMPANY.

THIS IS AN AMBITIOUS VISION FOR ANY INDIAN COMPANY. AND DR. REDDY'S HAS MADE SIGNIFICANT PROGRESS TOWARDS THIS GOAL. A RESULT OF EXCEPTIONAL FORESIGHT TRANSLATED INTO STRATEGY AND IMPLEMENTED METICULOUSLY.

BUT THE JOURNEY AHEAD IS FRAUGHT WITH CHALLENGES. AND THE MAGNITUDE OF THE TASK BEFORE DR. REDDY'S IS TO NAVIGATE EVERY ROADBLOCK WISELY AND YET STAY ON COURSE.

WELCOME TO THE JOURNEY.



# MANAGING CHALLENGES

## CONTENTS

02	US GAAP FINANCIAL HIGHLIGHTS
04	BOARD OF DIRECTORS
06	CHAIRMAN'S LETTER
08	THEMATIC PAGES
16	CORPORATE SOCIAL RESPONSIBILITY
26	AWARDS AND RECOGNITIONS 2002-2003
28	INTANGIBLES ACCOUNTING
32	EXCELLENCE AWARDS
38	MANAGEMENT DISCUSSION AND ANALYSIS

62	CORPORATE GOVERNANCE
78	SHAREHOLDERS INFORMATION
94	DIRECTORS' REPORT
105	FINANCIALS IGAAP STANDALONE
141	FINANCIALS IGAAP CONSOLIDATED
177	FINANCIALS US GAAP CONSOLIDATED
223	STATEMENT UNDER SECTION 212
227	NOTICE OF AGM
231	GLOSSARY

# US GAAP FINANCIAL HIGHLIGHTS

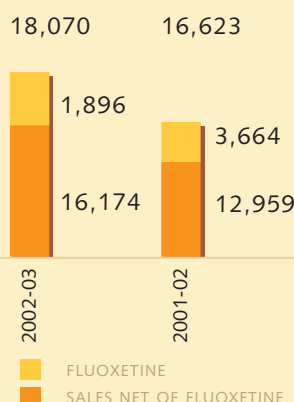
02

- Total revenues up by 9% to Rs. 18,070 million.
- Fluoxetine capsules 40mg revenues at Rs. 1,896 million as against Rs. 3,664 million in the previous year, which included one-time marketing exclusivity revenues. Net of Fluoxetine, total revenues up by 25%.
- Revenues outside India up by 10% to Rs. 11,581 million; contributing 64% to total revenues.
- Revenues in North America at Rs. 5,853 million; contributing 32% to total revenues.
- Revenues in Europe up by 79% to Rs. 1,401 million; driven by the acquisition in UK.
- Revenues in Russia up by 28% to Rs. 1,676 million.
- Gross margins on total revenues at 57%; driven by improved business mix. This compares with gross margins of 59% in FY02 driven by Fluoxetine one-time marketing exclusivity revenues.
- R&D spends up by 85% to Rs. 1,375 million. R&D spends as a percent to revenues at 7.6%.
- 14 US DMF filings during the year taking the total filings to 40.
- 14 ANDA filings including 10 Para IV certifications.
- Cash and cash equivalents increase to Rs. 7,273 million from Rs. 5,109 million in the previous year
- Recommendation of a dividend @ Rs.5 on each equity share of Rs.5.

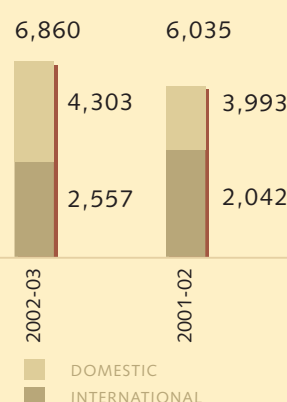


## RAPHS

TOTAL SALES RS. MN.

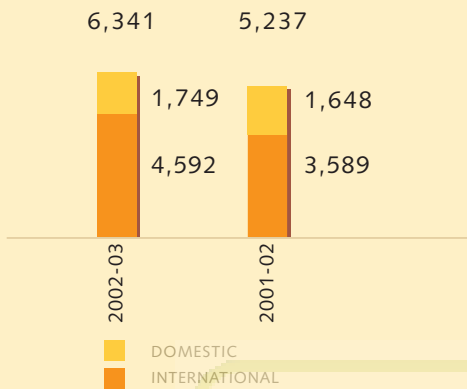


BRANDED FORMULATIONS SALES RS. MN.

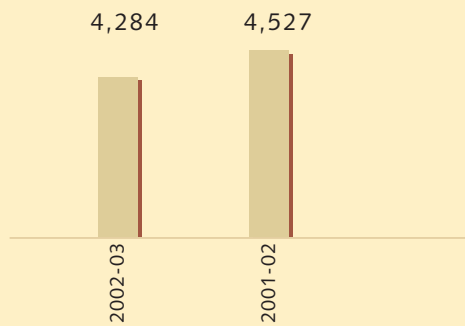




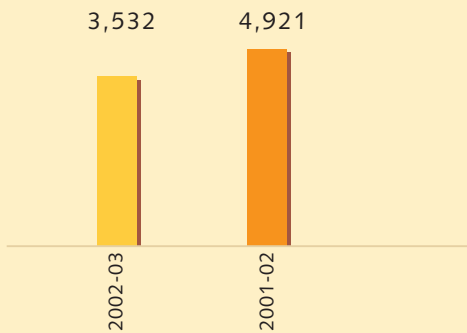
#### APIs SALES RS. MN.



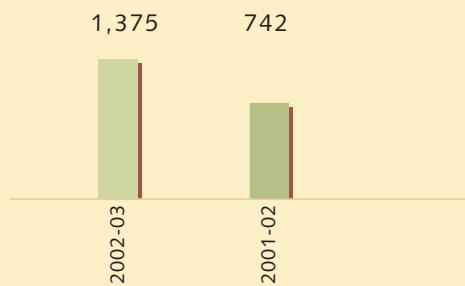
#### GENERICS SALES RS. MN.



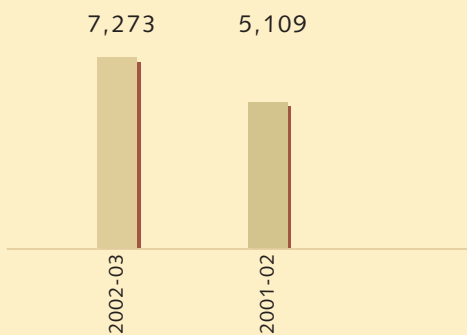
#### PROFIT AFTER TAX RS. MN.



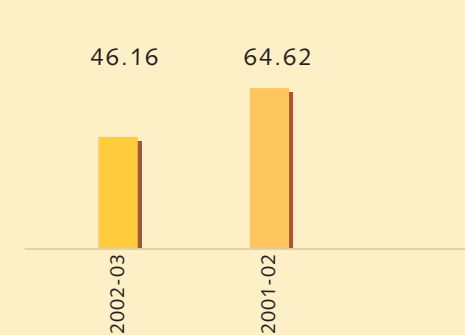
#### R&D SPEND RS. MN.



#### CASH AND CASH EQUIVALENTS RS. MN.



#### DILUTED EARNING PER SHARE RS.



# BOARD OF DIRECTORS



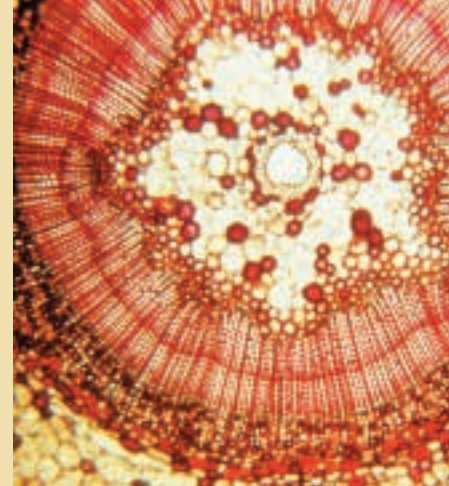
Standing Below: From Left to Right- Prof. Krishna G. Palepu, Dr. Venkateswarlu, Mr. Ravi Bhoothalingam, Mr. P. N. Devarajan, Dr. K. Anji Reddy  
2nd Row: Dr. V. Mohan, Mr. Anupam Puri, Mr. G. V. Prasad, Dr. Omkar Goswami, Dr. P. Satyanarayana Rao, Mr. Satish Reddy.

## BOARD OF DIRECTORS

Dr. K. Anji Reddy  
Mr. G.V. Prasad  
Mr. Satish Reddy  
Mr. Anupam Puri  
Dr. A. Venkateswarlu  
Prof. Krishna G. Palepu  
Dr. Omkar Goswami  
Mr. P. N. Devarajan  
Dr. P. Satyanarayana Rao  
Mr. Ravi Bhoothalingam  
Dr. V. Mohan

Executive Chairman  
Executive Vice-Chairman and CEO  
Managing Director and COO  
Non-executive and independent director  
Non-executive director  
Non-executive and independent director  
Non-executive and independent director  
Non-executive and independent director  
Non-executive and independent director  
Non-executive and independent director





#### AUDIT COMMITTEE

Dr. Omkar Goswami (Chairman)  
Mr. Anupam Puri  
Dr. A. Venkateswarlu  
Prof. Krishna G. Palepu  
Mr. P. N. Devarajan  
Dr. P. Satyanarayana Rao  
Mr. Ravi Bhoothalingam

#### COMPENSATION COMMITTEE

Mr. Ravi Bhoothalingam (Chairman)  
Dr. A. Venkateswarlu  
Mr. G.V. Prasad  
Mr. P. N. Devarajan  
Mr. Satish Reddy

#### REMUNERATION COMMITTEE

Mr. P. N. Devarajan (Chairman)  
Dr. A. Venkateswarlu  
Dr. Omkar Goswami  
Mr. Ravi Bhoothalingam

#### NOMINATION COMMITTEE

Mr. Anupam Puri (Chairman)  
Prof. Krishna G. Palepu  
Mr. Ravi Bhoothalingam

#### SHAREHOLDERS' GRIEVANCES COMMITTEE

Dr. P. Satyanarayana Rao (Chairman)  
Mr. G. V. Prasad  
Mr. Satish Reddy

#### INVESTMENT COMMITTEE

Mr. G. V. Prasad (Chairman)  
Dr. A. Venkateswarlu  
Mr. Satish Reddy

#### MANAGEMENT COMMITTEE

Dr. K. Anji Reddy (Chairman)  
Mr. G. V. Prasad  
Mr. Satish Reddy



# CHAIRMAN'S LETTER



DR. K. ANJI REDDY | CHAIRMAN

THE ULTIMATE ACCOLADE FOR A PHARMACEUTICAL COMPANY COMES FROM THE STRENGTH OF ITS DRUG DISCOVERY PROGRAM AND THE SIZE OF ITS NEW CHEMICAL ENTITY (NCE) PIPELINE.

DEAR SHAREHOLDERS

06

When I think about our close to two-decades-old journey of helping people lead healthier lives, we have encountered many challenges, seized many opportunities to put the Company on a firm footing. We have built all our businesses through an aggressive mix of entrepreneurship, innovation and globalisation.

Starting with bulk actives (APIs) we used innovation in process development to build a strong and profitable business. This fiscal, we are happy to report, the bulk actives business reported a commendable 21 per cent growth in revenue over last year.

We then entered the branded finished dosages business in India. Our efforts in this business made it possible for us to bring affordable medicine to the people. The cost advantage we created by innovation brought us very close to the hearts of the doctor community.

The same theme of affordable medicine saw us extending our branded finished dosages

business to other global markets such as Russia, UK, and some of the Latin American and Asian countries, including China. Over a period of time some of our brands have become leaders and we have increased our share in these markets.

Our presence in branded finished dosages in Russia and UK deserves mention. The 28 per cent revenue growth in Russia is a consequence of the equity of our key brands - Omez, Enam, Ciprolet and Ketorol. In Europe, the acquisition of BMS and Meridien UK drove revenues up by 79 per cent.

We started building a base for the US generics business in 1992. And within ten years, we already have Fluoxetine to our credit. In the post-Fluoxetine expiry period there was widespread speculation that this business would come under pressure. We are happy to note that the Generics division has turned in an excellent performance this fiscal bringing us closer to the \$100 million mark.





Nor are we resting on our successes. We have drawn plans to enter the specialty business segment in the US with our own branded finished dosage forms. One of them is amlodipine maleate, another version of Pfizer's Norvasc, for which we have filed a paper-NDA with USFDA. This has been subjected to litigation in US courts. While we have won the case in the district court of New Jersey, we are awaiting a decision from the Federal Circuit court, where Pfizer appealed against district court's decision. And while we await the court's decision on amlodipine maleate, our Specialty Business game plan is well under way with another paper-NDA filing with the USFDA.

Even as we were building a strong base for generic entry in the US, we have taken on the ultimate pharmaceutical challenge – drug discovery research while readying ourselves for the post-2005 era.

When we started our drug discovery program in 1993, industry pundits viewed it with skepticism. This ambition, they said, would not be within the reach of an Indian company. The challenge was, to prove them wrong. And in this last decade, we have done just that.

This November, we will complete ten years of drug discovery research. And what an eventful decade it has been! We now have a pipeline of seven New Chemical Entities (NCEs) including two in clinical development. Three NCEs were out-licensed

to MNCs for upfront and milestone payments. Of these one has completed phase-II clinical development and another went all the way to phase-III clinical development, before it was withdrawn due to its side-effect profile.

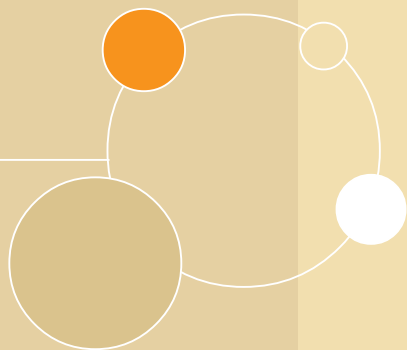
Our efforts and the progress we made during the last decade have proved that we are up to the drug discovery challenge. However, the bigger challenge is to take a molecule from our pipeline all the way to the market place cost-effectively, and also make it available at an affordable price to the people.

I have great confidence in our army of chemists and biologists, and am sure we will bring our own molecule to the market in this decade – the first decade of 21st century.

When you look at all the activities that we have undertaken during the last 18 years or so, you will notice that we have always chosen the challenging and innovative path to stay ahead. I know that whatever route is taken, one does not succeed all the time. But I firmly believe that walking on the trail of innovation will lead to creating a great company – a company that doctors, patients, investors and the public will admire.

I take this opportunity to assure you that we will surely and steadily progress on the road to our vision of becoming a “discovery-led global pharmaceutical company”.

DR. K. ANJI REDDY  
CHAIRMAN



# THE ROAD AHEAD



**T**HE VISION TO BE A GLOBAL BRAND IS BORN OUT OF THE ABILITY TO LOOK BEYOND.

## THE US - THE MOST PROFITABLE AND COMPETITIVE MARKET

The first stop for any pharmaceutical company seeking to be a global player has to be the US- the largest, most profitable and most competitive market in the world. Dr. Reddy's has successfully entered the US with both Active Pharmaceutical Ingredients (API) and Generic Formulations. The turnover from the US market will fuel our growth in the short-term.

## CREATING A GLOBAL BRAND

Apart from the US, Dr. Reddy's has a presence in over 50 countries with Russia, China and Europe being the other key markets. The strategy is to sell our product line in new markets. And, therein lies the challenge of creating a global brand.

Our brand equity in India and Russia has paved the way for recognition in other markets. We have succeeded in establishing Dr. Reddy's