



DR. REDDY'S LABORATORIES LIMITED
ANNUAL REPORT 2013-14

**HEALTHY
FOREVER**

Contents

CHAIRMAN'S LETTER	2
CELEBRATING GOOD HEALTH FOR DECADES	4
DOING WHAT MATTERS MOST	6
KEY PERFORMANCE INDICATORS	8

HEALTHY FOREVER

■ A FIRM FOUNDATION FOR SUSTAINED R&D INITIATIVES	12
■ BUILDING WORLD-SCALE MANUFACTURING CAPABILITIES	18
■ HARNESSING PEOPLE POTENTIAL	22

BOARD OF DIRECTORS	26
--------------------	----

MANAGEMENT COUNCIL	30
--------------------	----

BUSINESS RESPONSIBILITY REPORT	32
--------------------------------	----

MANAGEMENT DISCUSSION & ANALYSIS	50
----------------------------------	----

CORPORATE GOVERNANCE	62
----------------------	----

ADDITIONAL SHAREHOLDERS' INFORMATION	79
--------------------------------------	----

FIVE YEARS AT A GLANCE & RATIO ANALYSIS	90
---	----

SECRETARIAL AUDIT REPORT	92
--------------------------	----

DIRECTORS' REPORT	94
-------------------	----

IGAAP STANDALONE FINANCIAL STATEMENTS	103
---------------------------------------	-----

IGAAP CONSOLIDATED FINANCIAL STATEMENTS	155
---	-----

EXTRACT OF AUDITED IFRS CONSOLIDATED FINANCIAL STATEMENTS	207
---	-----

STATEMENT 212	210
---------------	-----

INFORMATION ON FINANCIALS OF SUBSIDIARIES	211
---	-----

NOTICE OF THE ANNUAL GENERAL MEETING	212
--------------------------------------	-----

■ CASE STUDIES

10-11	■ METFORMIN: SMALL IS BIG
-------	---------------------------

16-17	■ VIVA: COLLABORATING TO CURE
-------	-------------------------------

20-21	■ SMT: IMBIBING PATIENT-CENTRICITY
-------	------------------------------------

24-25	■ PROMIUS PROMISE: GUIDING RIGHT
-------	----------------------------------

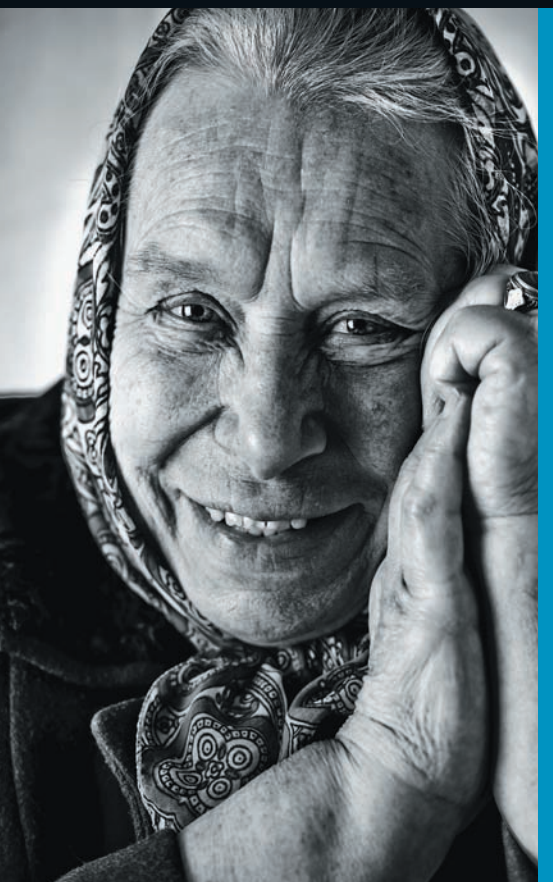


Affordable healthcare for the world is a mission we have dedicated ourselves to, since inception. However, as the world around us changes, the means to achieving our mission must evolve at every step. It is important that we build the necessary capabilities and competencies that are aligned to emerging and unmet medical needs across the globe.



HEALTHY FOREVER

With this realization, we decided to firmly focus on getting difficult to produce medicines first-to-market. This is in step with the strategic priorities we have outlined for ourselves.



In FY2014, we not only reported excellent numbers but took effective steps towards fulfilling our priorities. We tasked ourselves with identifying the right products to focus on and building capabilities across our businesses. We strengthened our R&D infrastructure to remain ahead of the curve and worked on creating the relevant scale for manufacturing. And, we are developing a talented workforce who can drive our vision from the ground up. We believe these three initiatives will help bring our mission to life.



Chairman's Letter



DEAR SHAREHOLDERS,

I am pleased to share with you the financial and operational results of our Company for FY2014. In a nutshell:

- Consolidated revenue was ₹132.2 billion – up 13.7% over the previous year. In US\$ terms, this amounted to US\$ 2.20 billion.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) grew by 19.3% to ₹33.2 billion, amounting to 25% of consolidated revenue.
- Profit before taxes (PBT) was ₹26.6 billion – which was a growth of 22.7% over the previous year. In US\$ terms, it was US\$ 443 million.

- Profits after tax (PAT) was ₹21.5 billion – an increase of 28.2% over the previous year and was at 16% of consolidated revenue.

The high point has been the 27.4% growth in revenue from Global Generics in FY2014, which stood at ₹105.2 billion. This was driven largely by North America and the emerging markets. The low point was the 21.9% decline in revenue from Pharmaceutical Services and Active Ingredients (PSAI), which reduced to ₹24 billion in the course of the year. This was due to lower demand from several major customers coupled with a fewer launches compared to the previous year. Hopefully, PSAI's performance will improve substantially in the coming year.



Profit is important. But to my mind, it is an enabler and not an end in itself. Ultimately, the *raison d'être* of your Company is to continuously improve patient care – and do so by providing innovative and affordable medicines across the globe. I look at performance through the lens of that fundamental objective.

Though we have miles to go to become one of the best in the world in meeting this objective, I have the satisfaction of saying that we are making good progress on this front. Consider, for instance, your Company's performance in North America Generics in FY2014. A growth in revenue of over 46% to ₹55.3 billion was mostly on account of your

Company successfully introducing innovative and limited competition products to meet critical unmet medical needs.

In the course of the year, nine new products were launched in North America. The major ones were (i) decitabine, a complex injectable to treat blood cell disorders including acute myeloid leukemia; (ii) azacitadine, also for blood cell and bone marrow cancer; (iii) zoledronic acid, to prevent osteoporosis; (iv) divalproex extended release, for treating seizures and epilepsy; and (v) donepezil 23 mg, to treat patients with dementia. These types of highly specialized medicines – be they in oral forms or in injectable dosages – were not produced by Dr. Reddy's earlier. Thanks to systematic investments in R&D and better organization of both intellectual property rights as well as the planning of a pipeline of specialized products, your Company can today provide tough-to-make generics to patients all over the world.

During FY2014, Dr. Reddy's R&D expenses amounted to ₹12.4 billion – an increase of 62% over the previous year and amounting to 9.4% of sales. This is an essential ingredient for growth and the basis for your Company to create innovative medicines that meet unmet patient needs.

I am happy to inform you that FY2014 also saw 13 product filings in the USA. Cumulatively, 62 Abbreviated New Drug Applications (ANDAs) are pending for approval from the US Food and Drug Administration (USFDA). Of these, 39 are Para IVs – out of which we believe nine have 'First to File' status. These are the pathway to state-of-the-art growth.

What is my vision for your Company?
A company which was founded and nurtured by a scientist of the caliber of Dr. K Anji

Reddy. Your Company should be able to steadily introduce a large number of difficult to produce, innovative medicines – oral formulations, injectables or biosimilars – and do so year after year. We should be among the global best in R&D and new product development. We should have manufacturing facilities that not only pass the most stringent tests by global regulatory agencies but are also recognized as outstanding in their engineering, design, quality, health and safety and margins. We should have best in class employees that work together in a positive, engaging environment to create an enterprise that each is proud of. And together, our Company should be known as a nimble, innovative provider of medicines that address critical yet unmet medical needs and, in doing so, earn greater returns for our stakeholders.

Are we there? Not yet. Are we getting there? I believe that we are. With more confident and determined steps with every passing year.

My belief is that we will see an even better FY2015. We have all the ingredients in place. We need to make them work as I believe we shall.

Thank you for your support. The management, the Board of Directors and I cherish it very much.

With warm regards,

G V Prasad
Chairman & Chief Executive Officer

Celebrating Good Health For Decades

Good health is everyone's primary need. At Dr. Reddy's, we realize this and strive to help patients across the world gain access to affordable healthcare. This objective underpins our business strategies.

We are a global organization, with a diverse basket of products designed to offer solutions for unmet medical needs and better access to existing medicines. Our offerings cover active pharmaceutical ingredients, branded formulations, generic drugs, biologics, specialty products and New Chemical Entities (NCE).

We are headquartered in Hyderabad, India, with a presence across 20 countries. Our manufacturing facilities span 24 locations, supported by five technology development centers, an integrated product development facility and two R&D centers.

STRENGTHENING A GLOBAL MISSION

Our corporate mandate is to create greater access to affordable medicines and reach patients worldwide. We have a strong presence in key generics markets globally. Our medicines and services are available in North America, Europe and the emerging markets of Asia, Africa and South America. This helps us stay close to patients, doctors, healthcare providers and business partners, wherever they are.

We supply active pharmaceutical ingredients to other generics companies across the world to help them quickly bring medicines to market and create affordable options to high-cost medicines. We also help innovator companies get their proprietary medicines to patients faster by providing a range of products and services.

North America garnered the largest share of the revenue pie in FY2014.

FY2014 CONSOLIDATED HIGHLIGHTS

REVENUE

₹132.2 bn

13.7% growth YoY

EBITDA

₹33.2 bn

19.3% growth YoY

PROFITS AFTER TAX

₹21.5 bn

28.2% growth YoY

FULLY DILUTED EARNINGS PER SHARE

₹126.04

28% growth YoY

TOP 10 PRODUCTS

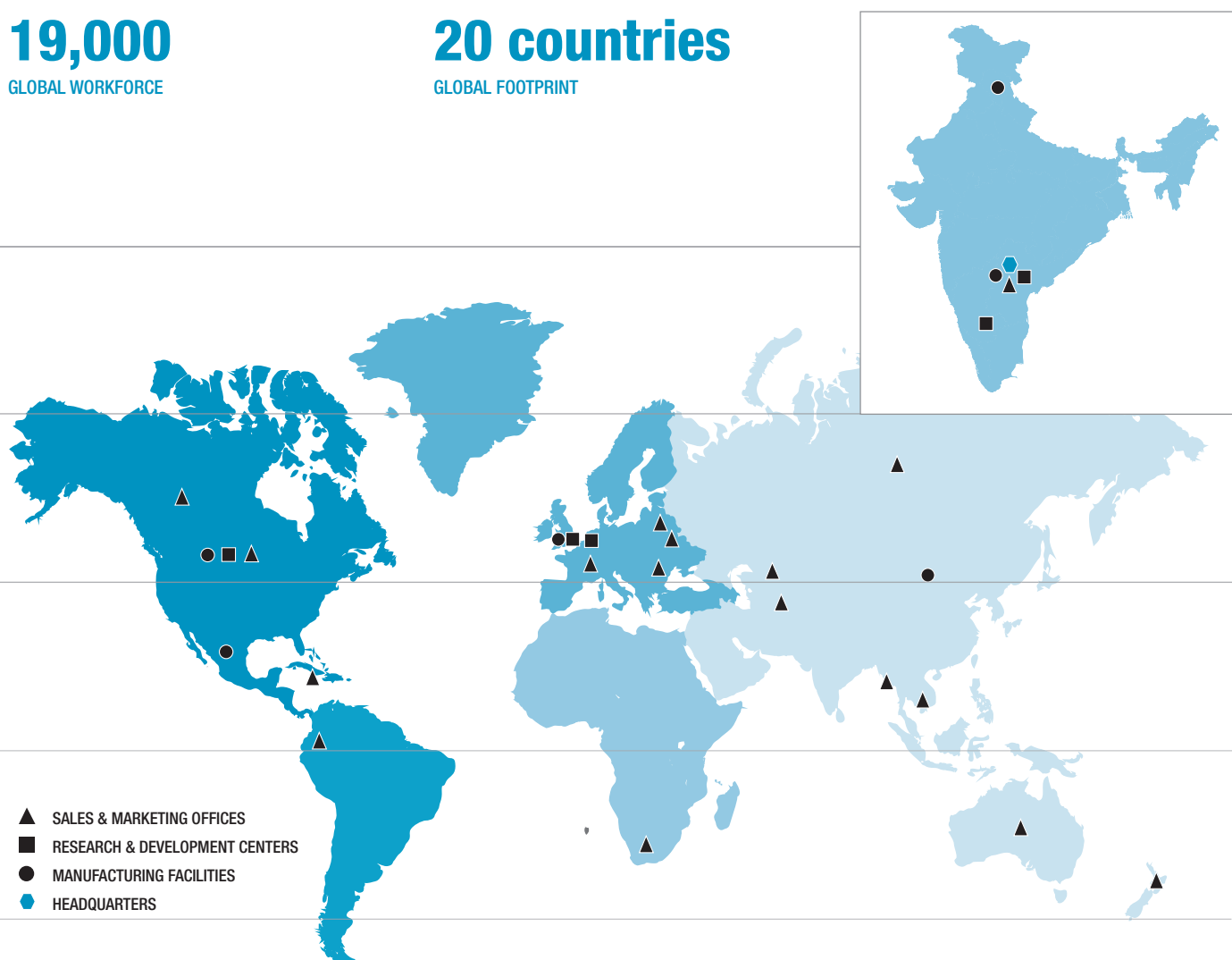
NORTH AMERICA	INDIA	RUSSIA
Decitabine Injection	Omez®	Nise®
OTC Omeprazole Mg	Omez-DSR®	Omez®
Azacitidine	Nise®	Ketorol®
Metoprolol ER	Stamlo®	Cetrine®
Zolendronic Acid (Reclast)	Reditux™	Ciprolet®
Fondaparinux	Stamlo Beta™	Senade
Omeprazole DR	Razo™	Sirdalud
Tacrolimus	Razo-D®	Ibuclin®
Atorvastatin	Atacor™	Novigan®
OTC Fexo	Econorm®	Femibion

19,000

GLOBAL WORKFORCE

20 countries

GLOBAL FOOTPRINT

**FY2014 FILINGS & LAUNCHES****62**

ANDA FILINGS

13 US filings were made in FY2014, which include 1 NDA filing under the section 505(b)(2) and 12 ANDA filings, bringing the cumulative ANDA filings to 209. As on 31 March 2014, the ANDA pipeline has 62 ANDAs pending approval with the USFDA, of which 39 are Para IV filings of which 9 are believed to have First-to-File status.

61

DMF FILINGS

12 DMFs were filed in the US, 13 in Europe and 36 in other countries. As on 31 March 2014, there were 631 cumulative DMF filings.

54

NEW PRODUCTS

New products launched in FY2014, of which 9 were launched in the US, 11 in Europe, 23 in Emerging markets and 11 in India.

Doing What Matters Most



Revenue from GG segment increased by 27% to ₹105,164 million.

- Revenue from North America increased 46% to ₹55,303 million.
- Revenue from Russia and other CIS countries increased 17% to ₹19,819 million.
- Revenue from India increased 8% to ₹15,713 million.

GLOBAL GENERICS

Our Generics products make affordable healthcare a reality. We achieve this by bringing expensive medicines within the reach of patients by reducing the cost of therapy. Global generics is our biggest business driver. We offer over 200 high-quality and reasonably priced generic versions of expensive innovator medicines by leveraging our integrated operations. Our knowledge of active ingredients, product development skills, research-led understanding of regulations and intellectual property rights as well as our streamlined supply chain makes us a leader in this segment.

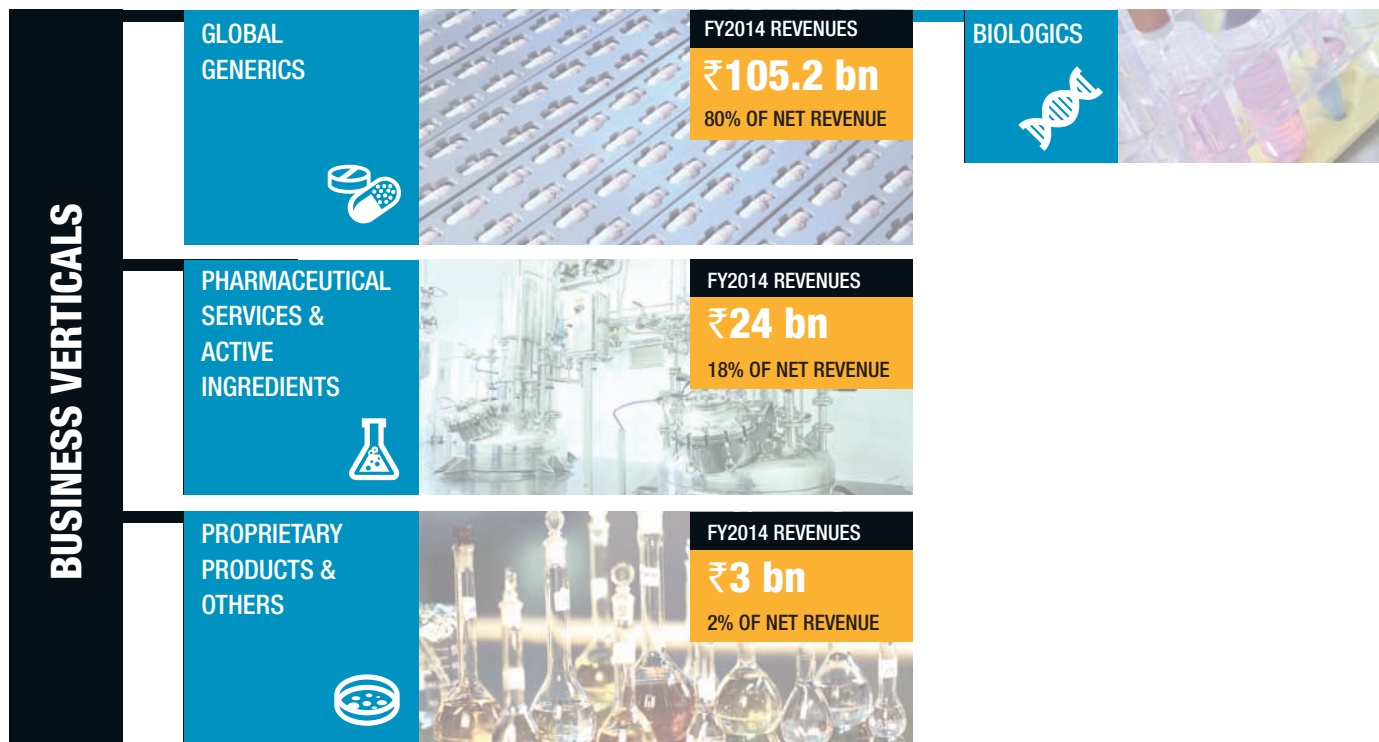
BIOLOGICS

Biologics represent the next step in the evolution of modern medicine where

medicines are produced from living organisms and biological processes using biotechnology. At Dr. Reddy's, we were quick off the block to build capabilities for this eventual reality.

Large-molecule protein therapies, Biologics are extremely effective in treating complex diseases such as cancer and diabetes. These medicines are highly targeted with fewer side effects, but are very expensive. Our generic biosimilars offer affordable yet equally effective alternatives to their innovator versions. Our product development capabilities and commercial reach have made us a global leader in this industry with four products in the market and an industry-leading pipeline spanning oncology, nephrology and auto-immune diseases.

TOP: Technology Development Center, OctoPlus N.V., The Netherlands



PHARMACEUTICAL SERVICES & ACTIVE INGREDIENTS

ACTIVE PHARMACEUTICALS INGREDIENTS

We believe the trust of patients in our medicines needs to be continuously reinforced. Therefore, we endeavor to create high-quality Active Pharmaceutical Ingredients (APIs), enabling our customers to create end formulations for patients that are effective and safe.

As we push the envelope further and strive for excellence, our efforts have already paved the way for credible achievements. We have emerged as one of the world's largest producers of APIs and help innovator companies launch their products first in the market. Apart from helping customers capture market opportunities at the earliest, APIs also help our own generics business reach consuming markets faster and become cost-competitive.

CUSTOM PHARMACEUTICAL SERVICES

We have one of the largest customized pharmaceutical businesses in India. We offer other generics companies and innovator firms pre-clinical and commercial supply capabilities. We bring a range of technology platforms and product services at competitive costs. We have a track record of bringing innovations to the market quickly, efficiently and economically, thereby addressing patients' needs better and faster.

PROPRIETARY PRODUCTS

Our Proprietary Products business provides innovative medicines that increase patient's comfort and convenience. This business develops and markets new formulations of currently marketed drugs or combinations of complementary drugs and technologies to enhance safety or efficacy or both.



Revenue from PSAI segment was ₹23,974 million.



Revenue from Proprietary Products & Others was ₹3,032 million.

Key Performance Indicators

CHART A

CONSOLIDATED REVENUE

₹ MILLION

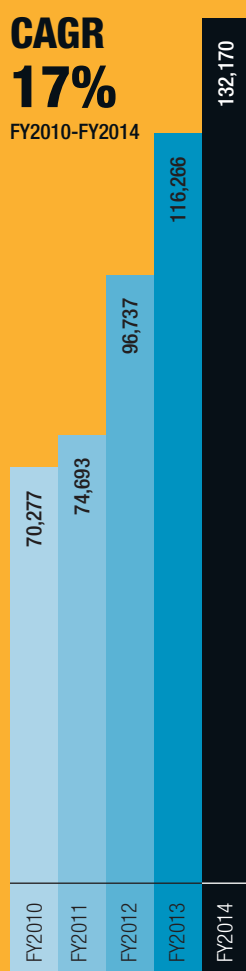


CHART B

EBITDA*

₹ MILLION

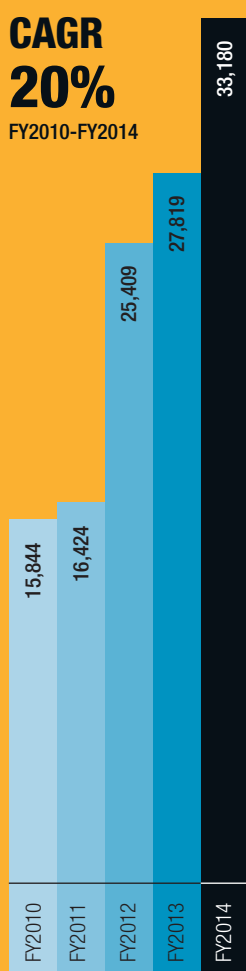
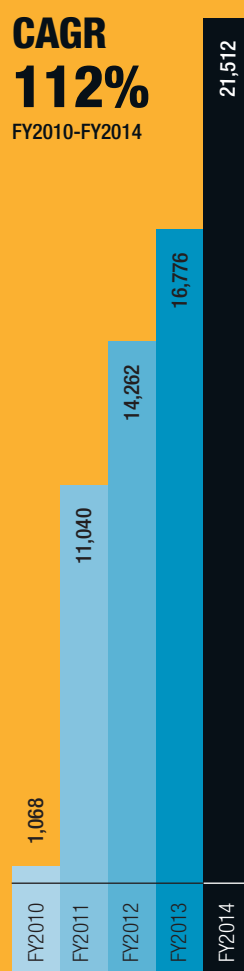


CHART C

PROFIT AFTER TAX

₹ MILLION

**A**

Consolidated revenue grew by **13.7% Y-O-Y** primarily due to increased business in the North America and Emerging markets regions in the Global Generics business segment.

B

EBITDA increased by **19.3% to ₹33,180 million** (25.1% of consolidated revenues) in FY2014, from ₹27,819 million in FY2013.

C

PAT increased by **28.2% to ₹21,512 million** (16.3% of consolidated revenues) in FY2014, from ₹16,776 million in FY2013.

* Adjusted for non-cash impairment charge and other non-recurring costs/income