



**Good health
starts from
within.**

Living the Good Health Belief



At Dr. Reddy's, we are driven by the conviction that Good Health Can't Wait. We work tirelessly to create an environment of innovation and learning. This objective enables us to help patients across the world gain access to affordable healthcare.

We are a global organisation, with products across the pharmaceutical value chain designed to offer solutions for unmet medical needs and better access

BRINGING AFFORDABLE HEALTHCARE TO EVERYONE

Our purpose of accelerating access to affordable and innovative medicines brings us closer to making affordable healthcare available to everyone because Good Health Can't Wait.

to existing medicines. Our offerings cover Active Pharmaceutical Ingredients (APIs), Branded Formulations, Generic Drugs, Biologics, Specialty Products and New Chemical Entities (NCE).

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 are headquartered in Hyderabad, India, with a presence across 26 countries. Our manufacturing facilities are supported by five technology development centres, two integrated product development facilities and three R&D centres.



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Our Promises

Our five Promises clarify what we do, what we offer and the commitments we make to our customers. Our patients trust our medicines. We focus our energies on renewing this trust every day. As we keep the interests of our patients at the centre of all that we do, our Promises drive us to reach higher levels of excellence.

Bringing
expensive
medicines within
reach

Addressing
unmet patient
needs

Helping patients
manage disease
better

Enabling
and helping
our partners
ensure that our
medicines are
available where
needed

Working with
partners and
helping them
succeed

Message from the Chairman



K Satish Reddy
Chairman

Dear Shareholder,

Even as the world experiences economic turbulence and slowdown, contributing to a general lack of cheer as far as economic growth goes, India continues to deliver a standout performance and grow at a rapid pace. At the same time, however, ensuring access to quality healthcare remains a primary challenge for governments and communities.

At Dr. Reddy's we continue to advance on our purpose of accelerating access to affordable and innovative medicines and delivering on our brand promises. Despite the challenges in our operating environment, we have managed to stay resilient and report a credible performance. We had our fair share of challenges, which we are working hard to surmount and overcome.

Let me give you a synopsis of your Company's performance in FY2016.

- Consolidated revenues grew by 4% over the previous year to ₹ 154.7 billion.
- Gross profit margin was at 59.6%, 2 percentage points higher.
- EBITDA was more or less unchanged at ₹ 36.3 billion, and accounted for 23.4% of consolidated revenues. After adjusting for the impact of devaluation and translation of net monetary assets in Venezuela, EBITDA was 26.7% of revenues at ₹ 41.2 billion.
- PBT was 4% less at ₹ 27.1 billion, 17.5% of revenues.
- PAT was 10% less at ₹ 20 billion, 12.9% of revenues.

We need to share with you the reasons for your Company's somewhat subdued performance in FY2016, which was broadly the result of three key events:

First: The USFDA inspected three of our plants between November 2014 and March 2015. In November 2015, they sent a warning letter to your Company. We have responded to them with a comprehensive plan of corrective and remedial actions with clear timelines. However, this event and the remedial steps that followed have delayed launches of key products and certain APIs which, in turn, significantly lowered incremental revenues.

Second: The economic problems in Russia and the sharp devaluation of the rouble led to a decline in our revenues from Russia by 29% to ₹ 10.6 billion.

Third: The continuing economic crisis in Venezuela led to a clampdown on foreign exchange outflows due to which your Company received no approvals from the Venezuelan government to repatriate amounts beyond US\$ 4 million. The remaining Venezuelan net monetary assets were translated using the DICOM rate resulting in a write-down of ₹ 5.09 billion.

These three factors notwithstanding, there were several commendable developments which reinforce your Company's position as a key participant in the global pharmaceutical industry.

Revenues from North America grew by 19% to ₹ 75.4 billion. The sustained performance of our injectables franchise and market share gains in key molecules were the main reason.

Revenues from India also grew at 19%, reaching ₹ 21.3 billion. This was primarily due to the continued momentum of our mega-brands, some profitable business development deals and the good performance of pharmaceutical products acquired from UCB in April 2015.

Europe did well too. Revenues from generics expanded by 19% to ₹ 7.7 billion. Growth was driven largely by two complex generic products:

(i) aripiprazole, used in treating schizophrenia and bipolar disorder, and (ii) pregabalin, used to treat epilepsy, neuropathic pain and anxiety disorder.

We are particularly proud of the advances made in our Proprietary Products (PP) business. We launched Zembrace™ SymTouch™, used in treating migraines, approved by the USFDA in January 2016. In May 2016, we launched Sernivo™, a prescription topical steroid spray, used for mild to moderate plaque psoriasis, after receiving USFDA approval. Sernivo™ exemplifies your Company's focus on differentiated drug delivery.

We have also initiated a share buyback to leverage strong cashflows, strengthen our balance sheet and deliver value to you, our shareholders.

What do I foresee for the next year? It is difficult to assess the probable situation in Venezuela and Russia in the near future. In case of Venezuela, your Company has decided to supply medicines only against letters of credit or pre-payment. We are cautiously optimistic about Russia, given that there is a gradual recovery in the crude prices, and its direct impact on the rouble. We have started strengthening our pipeline with complex generics, better OTC offerings, and increasing our institutional/hospitals business.

We have undertaken remedial measures with an extreme sense of urgency and purpose. Therefore, I am reasonably confident that we will resolve the issues at the earliest and continue to focus on driving growth.

Our growth, going forward, will be driven by the attractive pipeline of complex generics as well as our new proprietary products. We will leverage these across the markets we operate in, together with increasing our OTC portfolio. We are creating a branded generics platform in North America and expanding our

We accelerate access to affordable and innovative medicines because Good Health Can't Wait.

biologics play in Russia, CIS and other emerging markets. The outlook for the API business is also positive.

We truly believe that delivering good health requires more than just good products. In order to deliver good health, we must build a business which is robust, around processes that are best-in-class, and with a mindset that is long-term, while investing in high-quality assets and the best people. Over the years, we have consistently demonstrated our ability to do so and continuously improve from within. We are building an organisation on the foundation of operational excellence (OE), with a strong product pipeline and a sustainable business model that is value-accretive for all the stakeholders.

Operational excellence (OE) acts as a bulwark against adversities and margin challenges thereby empowering our people to become engines of our growth.

For us to fulfil our stated purpose of accelerating access to affordable and innovative medicines, we have to continue tirelessly on the journey towards excellence in every facet.

The Board and I are truly grateful for the support that we continue to receive from all our stakeholders. Let's chart the good health path together starting from within.

Best wishes,



K Satish Reddy
Chairman

Message from the Co-Chairman & CEO



G V Prasad
Co-Chairman
& CEO

Dear Shareholder,

India holds the potential of being a global manufacturing leader. Yet there are many barriers that are holding it back - a weak public infrastructure, poor hygiene and sanitation conditions, and a mindset that does not instinctively think world-class. While things are changing, the journey is still a long one. In this context, it is organisations such as yours that can lead the way for a renaissance in Indian manufacturing. And we are well on that journey.

'Good health starts from within'. This precept is as true for companies as it is for people. Over the years, Dr. Reddy's has had an enviable record of business growth and profitability built on the foundation of deep scientific expertise, relentless execution, responsible business practices and an unwavering commitment to do the right thing.

During the year FY2016, we encountered challenging circumstances on a few fronts. Yet, unexpectedly, they served as timely reminders, and even inspiration, to renew our focus on operational excellence and shape a more impactful future for your Company. We made significant investments of time and resources in strengthening the three foundational aspects of operational excellence - People, Systems & Processes, and Technology.

Our purpose of accelerating access to affordable and innovative medicines continues to inspire us each day.

Over the years, Dr. Reddy's has maintained an enviable growth record in business and profitability, built on the foundation of deep scientific expertise, relentless execution, responsible business practices and an unwavering commitment to do the right thing.

EMPOWERING PEOPLE ON THE SHOP FLOOR

This year, we extended the spread of Self-Managed Teams (SMTs) to more of our existing facilities. The SMT program is one of our leading interventions that successfully drives meaningful change and responsible empowerment on the shop floor. In this program, we recruit youngsters who have completed class 12, from economically disadvantaged backgrounds. We train them for several months after which they are employed in our factories. We also enrol them in a custom-designed undergraduate program in a local university. They graduate in about 5 years while they continue to work.

Equipped with the right skills, appropriate tools and an enabling environment they are able to determine, plan and manage their jobs end-to-end, thereby eliminating the need for hierarchy. In our experience, SMT recruits stand apart from their industry peers and deliver high quality output. 'The SMT Way' as we call it, is a cultural shift calling for change not only in work practices, but also in the thinking process. We have witnessed that our SMT recruits become highly skilled technicians and grow in their respective fields, be it at Dr. Reddy's or elsewhere in the health industry.

REWIRING OUR QUALITY SYSTEMS

We set out to rewire our quality systems from grounds-up. This involved overhauling our Standard Operating Procedures by removing redundancies, simplifying, creating better and more complete procedures, and harmonising the entire system. We made structural changes for ensuring the quality of our products throughout their life cycle, while also providing vital integration between product development, quality and manufacturing on an ongoing basis. I firmly believe that as a result of our efforts we will have a much stronger quality system by the end of 2016.

USING TECHNOLOGY TO ELIMINATE HUMAN ERROR

The need for providing dignity of labour and our own enhanced safety goals have steered us to accelerate the mechanization and automation at our units, allowing us to redeploy our human resources towards value-added and more productive work. This has also led to improved productivity, better consistency in quality and shorter turnaround times. We are also speeding up digitisation across the key product development functions through design and deployment of large-scale projects that significantly reduce manual intervention and thereby minimise error.

As we continue our journey towards excellence, we are constantly finding ways to ensure that the way we develop, manufacture, and ship our products has minimal impact on the environment. We are refining all our processes to do things more resource efficiently, reducing our carbon footprint each year and making our operations much more sustainable. Be it our drive towards operational excellence or making our products available in various regions around the world, every time I reflect on the work that we do, I am inspired by the potential we have to create a difference in the lives of patients. The chance to restore the health

of an ailing person, the ability to reach large numbers of people through greater affordability, and the power to listen and respond to unmet needs of patients: these are really the opportunities we have in our everyday work!

Our purpose of accelerating access to affordable and innovative medicines continues to inspire us each day, provides objectivity in all our decisions, and keeps our moral compass firmly pointed in the right direction.

Best wishes,



G V Prasad
Co-Chairman & CEO

Our Businesses

GLOBAL GENERICS



- Revenues from the GG segment grew by 7% to ₹ 128.1 billion.
- Revenues from North America grew by 19% to ₹ 75.4 billion.
- Revenues from Russia and other CIS countries declined to ₹ 13.3 billion.
- Revenues from India grew by 19% to ₹ 21.3 billion.

GLOBAL GENERICS

Global Generics is our biggest business driver. We offer more than 200 high-quality generic drugs, keeping costs reasonable by leveraging our integrated operations. Our expertise in active ingredients, product development skills, a keen understanding of regulations and intellectual property rights, as well as our streamlined supply chain, makes us leaders in this segment.

BIOLOGICS

Our biosimilars, generic equivalents of the innovator's biologics, offer affordable yet equally effective alternatives. Our product development capabilities and commercial reach have made us global leaders in this therapeutic area. We have four products in the market and an industry-leading pipeline spanning oncology, nephrology and auto-immune diseases.

PHARMACEUTICAL SERVICES & ACTIVE INGREDIENTS



Revenues from the PSAI segment declined to ₹ 22.4 billion.

ACTIVE PHARMACEUTICALS INGREDIENTS

We are one of the world's largest manufacturers of Active Pharmaceuticals Ingredients (APIs) and we partner with several leading innovator companies in bringing their molecules first to the market. Our focus on innovation-led affordability gives our customers access to the most complex active ingredients, while maintaining a consistent global quality standard. Besides, our APIs development efforts enable our own generics business to be cost competitive and get to market faster.

CUSTOM PHARMACEUTICAL SERVICES

Dr. Reddy's has one of the largest custom pharmaceutical services businesses in India. We offer end to end product development and manufacturing services and solutions to innovator companies. Further, our rich and extensive knowledge repository of various types of formulations helps shorten time to market and support lifecycle management.

PROPRIETARY PRODUCTS & OTHERS



Revenues from Proprietary Products & others was ₹ 4.3 billion, grew by 28%.

PROPRIETARY PRODUCTS

Inspired by patients and driven by innovation, our Proprietary Products business is focused on developing treatment solutions for patients suffering from skin and neurological disorders. Our R&D pipeline reflects the convergence of deep patient insights, pre-clinical, clinical and regulatory expertise in the development of products that address pressing medical needs of various patient subgroups. The ultimate goal for the Proprietary Products business and Promius Pharma is to enable health outcomes that help patients live a normal life.

In 2016, three New Drug Applications (NDAs) were approved by the FDA and two products are commercially available in the US market for the treatment of migraine and psoriasis.

GLOBAL PRESENCE



FY2016 HIGHLIGHTS

REVENUES

₹154.7 bn

EBITDA

₹36.3 bn

ADJUSTED EBITDA

₹41.2 bn

PROFIT AFTER TAX

₹20.0 bn

DILUTED EPS

₹117

FY2016 FILINGS AND LAUNCHES

GENERAL FILINGS (13 ANDA FILINGS & 1 NDA)

As on 31 March 2016, 82 generic filings are pending for approval (79 ANDAs and three NDAs). Of these 79 ANDAs, 52 are Para IV filings and we believe, 18 to have 'First-to-File' status.

50 DMF FILINGS

8 DMFs were filed in the US. As on 31 March 2016, there were 768 cumulative DMF filings.

51 NEW PRODUCTS

51 new products were launched in FY2016, of which 3 are in NAG, 9 in EUG, 22 in Emerging markets and 17 in India.

- SALES & MARKETING OFFICES
- RESEARCH & DEVELOPMENT CENTRES
- MANUFACTURING FACILITIES
- HEADQUARTERS

GLOBAL WORKFORCE

20,000+

COMMERCIAL PRESENCE

26 Countries

Key Performance Indicators

CHART A: REVENUES (₹ MILLION)



Revenues grew by 4% y-o-y primarily on account of our Global Generics segment's operations in North America, Europe and India.

12.5%
5 YR CAGR

CHART B: GROSS PROFIT (₹ MILLION)



Gross Profit as a percentage to sales, improved primarily due to an increase in new product contribution, incremental export benefit and favourable product mix.

CHART C: EBITDA (₹ MILLION)



EBITDA increased to ₹ 36,252 million or 23.4% of revenues.

9.3%
5 YR CAGR

CHART D: PBT (₹ MILLION)



10.1%
5 YR CAGR