

# Building a winning future

Annual Report 2018-19



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# Building a winning future

## OUR PROMISES

Our five promises clarify what we do, what we offer and the commitments we make to our stakeholders. 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 center 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

Working with  
partners to  
help them  
succeed

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

## LETTER FROM THE CHAIRMAN AND CO-CHAIRMAN



**K SATISH REDDY**  
Chairman



**G V PRASAD**  
Co-Chairman, Managing Director and  
CEO

### Dear Shareholder,

Though one needs to be circumspect in making definitive statements in an annual report, it is fair to say that there are clear indicators of your company's operational and financial turnaround.

On the revenue side, your company witnessed impressive growth in branded generics markets, especially in India, Russia, China, Brazil and CIS countries. Other than improving the base business across these markets, we launched several new products and scaled up in new geographies like Brazil and Colombia.

However, strong pricing pressures continued unabated in the US — your company's key generics market. This was true for all generic companies, and Dr. Reddy's was no exception. Thankfully, strong revenue growth in branded generics outweighed the negative pull in the US. Consequently, your company's global generics revenue increased by 8% over the previous year.

In response to the changing conditions in this key market, we are building a differentiated pipeline for the US.

In FY2019 alone, we filed 20 new Abbreviated New Drug Applications (ANDAs) with the USFDA. As on 31 March 2019, your company had 110 generic filings pending approval from the USFDA — comprising 107 ANDAs and three New Drug Applications (NDAs). Of the 107 ANDAs, 60 are Para IV applications, of which we believe 34 have 'First-to-File' status.

The company's pharmaceutical services and active ingredient (PSAI) business has seen a turnaround. In FY2019, revenues from PSAI grew by 10% over FY2018. In the course of the year, your company filed 82 Drug Master Files (DMFs) across the globe, including nine in the US. The strategy of building sustainable and growing PSAI revenues involves deeper customer

relationships, new product portfolio and ramping up of base businesses in key geographies.

You will recall that in our letter to you last year, we had written: "From the beginning of FY2018 there has been a totally focused drive on eliminating needless layers and unnecessary costs." With changing dynamics of the generics markets, we believe that cost competitiveness will continue to be a key driver. Hence, we aim to continue creating a leaner and more efficient organization.

In FY2019, our cost optimization initiatives enabled us to improve profitability. Multi-year initiatives are now in place to drive cost and procurement efficiencies; to optimize R&D spends and productivity; and to improve manpower throughput by layering and eliminating needless overlaps.

Your company has also focused on constructing a leaner business model so as to create profitable growth for each of its businesses. As a part of the strategy, FY2019 saw the company selling its antibiotic formulations manufacturing facility in Bristol, US; its API manufacturing business unit at Jeedimetla, Hyderabad; and the rights to distribute and market the specialty derma brands portfolio.

We can also share some good news regarding the USFDA warning letters that had affected three of your company's manufacturing facilities: API manufacturing at Miryalaguda (Telangana) and Srikakulam (Andhra Pradesh), and the oncology formulations facility at Duvvada, near Visakhapatnam (Andhra Pradesh).

Regarding the API plant at Miryalaguda, the USFDA issued an Establishment Inspection Report (EIR) in June 2017, indicating successful closure of its audit of this facility. This facility was reinspected in January 2019, for which the USFDA issued an EIR

in May, 2019. Similarly, in February 2019, the USFDA issued an EIR for the oncology formulations facility at Duvvada and has determined the inspection classification of this facility as Voluntary Action Initiated (VAI). In March 2019, we responded to the follow-up questions from USFDA regarding the API facility in Srikakulam. Based on the subsequent discussion with USFDA, we expect a reinspection will be conducted for the site.

### WHAT IS OUR VIEW OF THE NEAR FUTURE?

We believe that pricing pressures will continue to affect all players in generics in the US.

Overcoming this necessitates a robust pipeline of complex formulations with limited competition — a pipeline that allows your company to introduce several value-added products each year, and thus make up for price erosions on the earlier launched products.

As touched upon earlier in this letter, we have such a pipeline — of 110 generic filings awaiting approval from the USFDA. We have to leverage this and ensure that we succeed in delivering these products, molecule by molecule, to the US on the due dates. As we wrote last year, "We have to do this without fail, and with best-in-class cost. That is the way out."

Given the challenges in the US market, we will continue our efforts to diversify our market presence. We will leverage our global portfolio of products in markets outside the US to drive growth. We will also refocus some of our R&D resources to service the high potential branded generics markets such as China, Russia and other Emerging Markets. This is an important element of our geographical diversification and new market entry strategy — to lead with high value products and go-to-market partnerships.

India will continue to be important. We have seen a 12% growth in revenues in FY2019 and improved our market ranking by three places.

We shall propel further growth in our PSAI business. These moves should reduce our dependence on the US and also help us generate sustained growth and profitability to counter-balance volatility of the unbranded generics markets.

We remain focused on improving quality across all aspects of our operations, with initiatives for continuous improvement, reducing manual interventions through digitization and shop floor training programs to constantly upgrade the culture of quality. We intend to continue this journey and meet the highest regulatory standards across markets.

Given your company's significantly improved performance in FY2019, the success in improving operational efficiencies and our determination to drive growth, we are reasonably optimistic of the prospects for FY2020.

Our thanks to the management team, all employees and partners for coming together to deliver better results. And our thanks to you for your support.

With best regards,



**K SATISH REDDY**  
Chairman



**G V PRASAD**  
Co-Chairman,  
Managing Director and  
CEO

### CONSOLIDATED FINANCIAL RESULTS FOR FY2019 UNDER IFRS

#### Revenues

₹ 154 billion  8%

#### Gross profit

₹ 83 billion  9%

#### Gross profit margin

54.2%  0.5%

#### EBITDA

₹ 34.2 billion  42%

#### Operating profit

₹ 20.9 billion  75%

#### Profit before tax (PBT)

₹ 22.4 billion  56%

#### Profit after tax (PAT)

₹ 18.8 billion  92%

#### Diluted earning per share (EPS)

₹ 113.09  92%

These are commendable results — the more so after our lower than expected performance in FY2018 and FY2017

## OUR BUSINESSES

### GLOBAL GENERICS (GG)



#### REVENUE

₹ 123 billion ↑ 8%

#### Geography

North America India

₹ 60 billion ↔ ₹ 26.2 billion ↑ 12%

#### Emerging Markets

₹ 28.9 billion ↑ 28%

#### GLOBAL GENERICS

Global generics is our biggest business driver. We offer more than 350 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 five products in the market and an industry-leading pipeline spanning oncology and autoimmune diseases.

### PHARMACEUTICAL SERVICES AND ACTIVE INGREDIENTS (PSAI)



#### REVENUE

₹ 24 billion ↑ 10%

#### ACTIVE PHARMACEUTICALS INGREDIENTS

We are one of the world's largest manufacturers of Active Pharmaceuticals Ingredients (APIs) and partner with several leading generic formulator 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

We have 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



#### REVENUE

₹ 7 billion ↑ 13%

#### PROPRIETARY PRODUCTS

Our Proprietary Products business focuses on developing differentiated formulations that present significantly enhanced benefits in terms of efficacy, ease of use, and the resolution of unmet and under-met patient needs. The aim is to improve the patient's holistic experience with our medicines, so as to strengthen compliance with the therapeutic regimen and ensure positive outcomes.

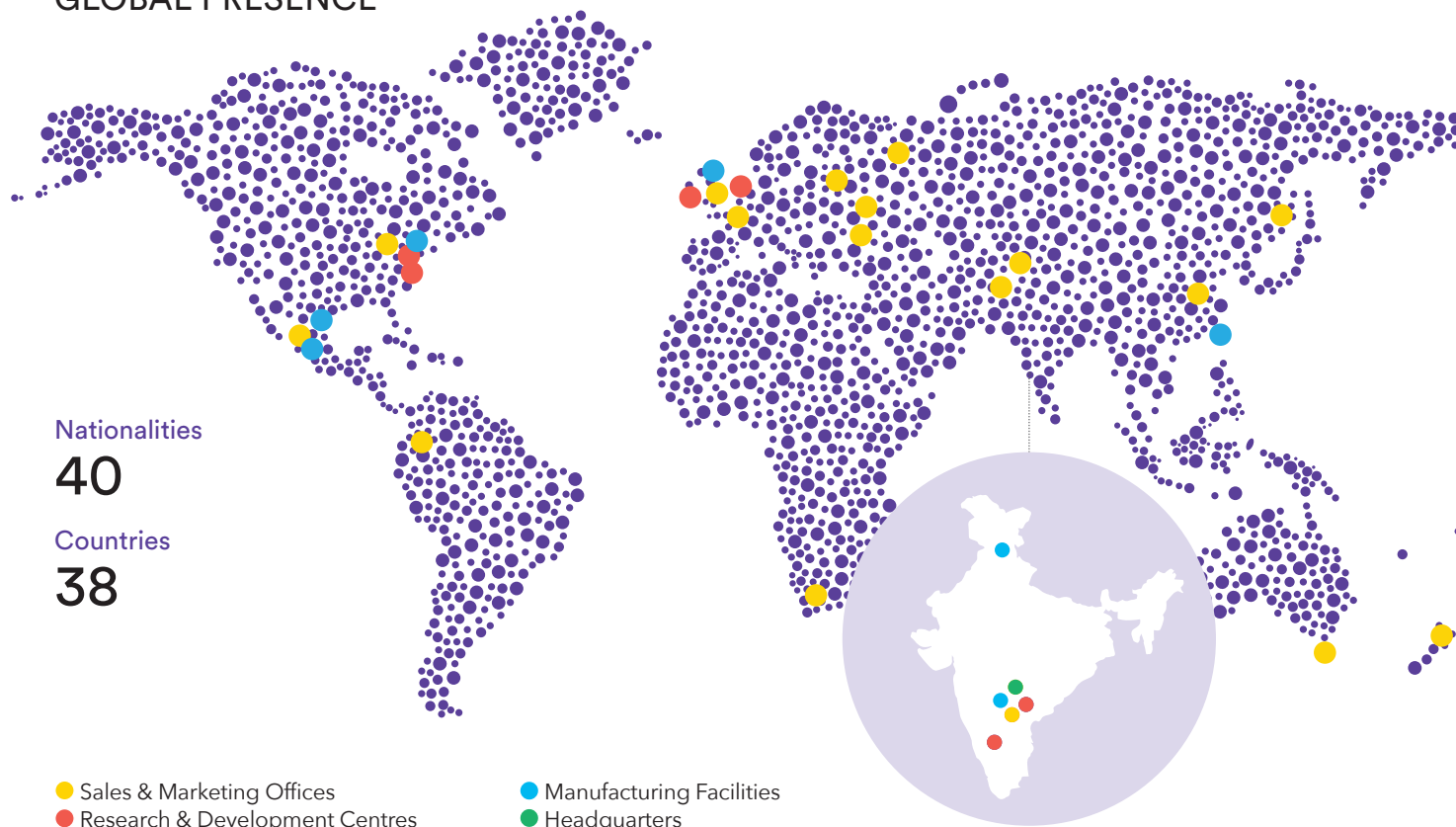
More than 350 high-quality generic drugs

Differentiated formulations that present enhanced benefits

One of the world's largest manufacturers of APIs



## GLOBAL PRESENCE



## FY2019

## HIGHLIGHTS

Revenues  
**₹ 154 billion**

EBITDA  
**₹ 34.2 billion**

Profit after tax  
**₹ 18.8 billion**

Diluted EPS  
**₹ 113.09**

## FILINGS

Generic filings  
**20 ANDA filings**

As on 31 March 2019, 110 generic filings are pending for approval (107 ANDAs and three NDAs). Of these, 107 ANDAs, 60 are Para IV filings of which we believe 34 to have 'First-to-File' status.

DMF filings  
**Nine DMFs filed in the US.**

## LAUNCHES

New products  
**140**

NAG  
**24**

Europe  
**35**

Emerging Markets  
**66**

India  
**15**

# KEY PERFORMANCE INDICATORS

## Revenue

(₹ million)

FY2019	153,851
FY2018	142,028
FY2017	140,809
FY2016	154,708
FY2015	148,189

## PBT

(₹ million)

FY2019	22,443
FY2018	14,341
FY2017	14,653
FY2016	27,140
FY2015	28,163

## ROCE

(%)

FY2019	14.7
FY2018	8.2
FY2017	10.3
FY2016	22.4
FY2015	26.1

## Gross Profit

(₹ million)

FY2019	83,430
FY2018	76,304
FY2017	78,356
FY2016	92,281
FY2015	85,403

## PAT

(₹ million)

FY2019	18,795
FY2018	9,806
FY2017	12,039
FY2016	20,013
FY2015	22,179

## EPS (Diluted)

(₹)

FY2019	113.1
FY2018	59.0
FY2017	72.1
FY2016	117.0
FY2015	129.7

## EBITDA

(₹ million)

FY2019	34,189
FY2018	24,081
FY2017	25,495
FY2016	36,252
FY2015	36,168

## Net Worth

(₹ million)

FY2019	140,197
FY2018	126,460
FY2017	124,044
FY2016	128,336
FY2015	111,302

## Net Debt to Equity Ratio

FY2019	0.09
FY2018	0.24
FY2017	0.25
FY2016	(0.05)
FY2015	0.03



# BUILDING A WINNING FUTURE

We are proud of what we do. We are committed to helping our partners on their mission to bring medicines to patients faster and to patients on their journey to good health by accelerating access to affordable and innovative medicines.

Good health also starts within. We took some meaningful steps this year to optimize our global cost structures and strengthen our foundations. We focused on creating a leaner and sustainable model across our businesses to prepare ourselves for the future.

With a focus on portfolio, patient centricity, people and quality, we realigned our strategy towards six chosen segments to drive future growth. We put in place a strong team for each of the strategic segments. Together, these steps will add substantially to our competitive muscle and make us a globally sustainable organization and go a long way in building a winning future.



## **Addressing unmet patient needs**