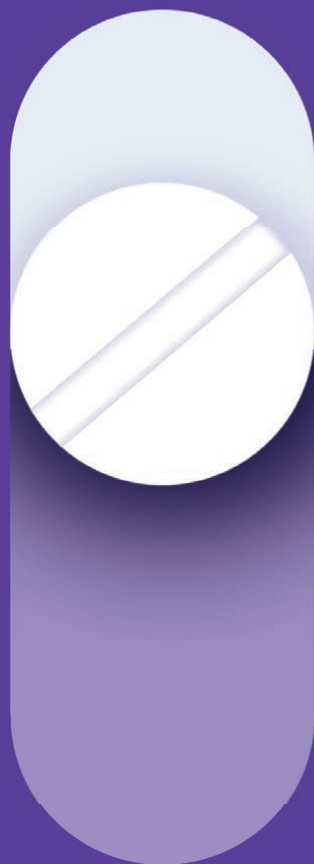


**Good
Health
Can't
Wait.**

Dr.Reddy's 



Accelerating the Transformation

ANNUAL REPORT 2019-20

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Accelerating the Transformation

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

Dear Member,

Some of you may recall that in our letter to you two years earlier, we had written, "From the beginning of FY2018 there has been a totally focused drive on eliminating needless layers and unnecessary costs." Last year, too, we reiterated this theme when we wrote, "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."

Cost competitiveness, de-layering, improving efficiencies and increasing speed-to-market are continuous processes. These can never stop for any company that seeks to remain on the path of profitable growth. Dr. Reddy's is no exception to this rule.

Your company's strategy is based on three inter-locking and interacting themes. These are:

- Leadership in chosen spaces
- Operational excellence and continuous improvement
- Patient-centric product innovation

How is the strategy bearing out? Last year, we had said that this strategy is getting organization-wide traction and believed that we could be "reasonably optimistic of the prospects for FY2020". We are pleased to inform you that it has, indeed, been the case.

To appreciate this, consider the key financial results for FY2020:

- Consolidated revenues for FY2020 were ₹ 174.6 billion, or a 13% growth over the previous year. This was on top of an 8% growth in FY2019.
- Consolidated gross profit was ₹ 94 billion, which was 13% greater than the previous year. This, too, came over and above a 9% growth in FY2019.
- Earnings before interest, taxes, depreciation and amortization (EBITDA) increased to ₹ 46.4 billion, or an increase of 36% compared to the previous year - on top of a 42% growth in FY2019.
- Profit before taxes (PBT) was ₹ 18 billion, which was 20% lower than ₹ 22.4 billion



K Satish Reddy
Chairman



G V Prasad
Co-Chairman and Managing Director

earned in the previous year. This was largely on account of impairment charges taken on a set of product intangibles.

- Profit after taxes (PAT) was ₹ 19.5 billion, versus ₹ 18.8 billion in FY2019 - representing a growth of 4%.
- Diluted earnings per share (EPS) was ₹ 117.40 in FY2020, versus ₹ 113.09 in FY2019.

Let us now touch upon some of your company's businesses.

Revenue from Global Generics in FY2020 was ₹ 138.1 billion, or an increase of 12% compared to FY2019. The growth was driven by impressive performances in Europe, Emerging Markets and India.

Revenue from North America Generics was ₹ 64.7 billion, representing a growth of 8% over FY2019. Pricing pressures continued in this geography. However, we mitigated these by launching 27 new products.

Revenue from Europe increased by 49% to ₹ 11.7 billion - thanks to expansion of the base business, new product launches and scaling up in new geographies such as Italy, Spain and France.

Revenue from Emerging Markets grew by 14% to ₹ 32.8 billion. Each of our key markets - Russia, the CIS countries, Romania and the Rest of the World territories - witnessed significant revenue growth.

Revenue from India was ₹ 28.9 billion, or a growth of 11% compared to FY2019. This was due to an increase in both sales volume and price of our existing products, plus additional revenues from the launch of 21 new brands. We also entered the nutrition segment by launching our diabetes nutrition drink 'Celevida'.

Revenue from Pharmaceutical Services and Active Ingredients increased by 7% to ₹ 25.7 billion.

Revenue from Proprietary Products was ₹ 7.9 billion. In FY2020, we sold our US and select territory rights for some products belonging to our neurology franchise.

Your company's path to excelling in the manufacture of complex generics and biosimilars depends on its successful filing for new drugs - be these formulations or active pharmaceutical ingredients (APIs).

In FY2020, your company filed eight new Abbreviated New Drug Applications (ANDAs) with the US Food and Drug Administration (USFDA). As on 31 March 2020, your company had 99 generic filings pending approval from the USFDA, consisting of 97 ANDAs and two New Drug Applications (NDAs). We believe that 30 of these 97 ANDAs have 'First to File' status. In APIs, we filed 98 Drug Master Files worldwide during FY2020, including 10 filings in the US.

Regarding the USFDA observations and warning letters issued relating to our API manufacturing facilities at Srikakulam, Andhra Pradesh and Miryalaguda, Telangana, as well as our oncology formulation manufacturing facility at Duvvada, Visakhapatnam, Andhra Pradesh, we are happy to inform you that these have been successfully resolved with satisfactory USFDA audit closures across all the three facilities.

That brings us to the greatest humanitarian and economic threat facing the globe today - that of the COVID-19 pandemic, which came out of Wuhan in China and spread rapidly across the world.

At the time of writing this letter*, some 6.2 million people have been infected by the virus, and over 370,000 have lost their lives across the world. The US is reeling with over 1.8 million cases; the number of cases has shot up exponentially in Brazil and Russia; and with over 180,000 cases, India now features among the ten worst affected nations.

Over and above the sheer humanitarian and health costs that the pandemic has imposed on countries, rich and poor alike, the economic costs are estimated to be phenomenal.

According to the International Monetary Fund's latest World Economic Outlook (April, 2020), global GDP growth is expected to crash by 5.9 percentage points - from 2.9% in CY2019 to -3% in CY2020. It could be worse. For India, growth is estimated to reduce by 5.5 percentage points: from 5% GDP growth in FY2019 to -0.5% in FY2020.

IN SUCH A TERRIBLE GLOBAL MILIEU, HOW DO WE EXPECT YOUR COMPANY TO PERFORM?

The national lockdown that was imposed in India from 25 March 2020, coupled with similar lockdowns in other countries, led to major disruptions in the supply chain and in logistics. These, plus restrictions on people movement, adversely impacted plant operations. Added to such constraints were restraints on face-to-face meetings with doctors, which is critical for domestic marketing. All these factors challenged the usual manner of doing business.

In large part, we rose to the occasion with timely and proactive initiatives supported by our strong digital infrastructure. Well before COVID-19, we had been working at rapidly

building various digital platforms not only across our businesses but also with our suppliers, buyers and doctors. Thanks to this digital backbone, we managed to continue most of our business operations despite the initial challenges. Going forward, we will be using our digital channels even more actively to enable working from home and to reach out to doctors, customers and vendors.

Various measures have been undertaken to ensure that our manufacturing operations continue unhampered. Moreover, across all our manufacturing and R&D facilities, offices and canteens, we have rigorously imposed social distancing, masks at work and frequent hand sanitizing.

In the initial period, we witnessed two opposite developments. On the one hand, there were incremental sales in certain markets, such as the US, Europe and Russia, thanks to panic buying of medicines. On the other, some of our sales were impacted and deferred in APIs, in the India business and in a few Emerging Markets.

Overall, however, there was no major impact of the pandemic on either in Q4 FY2020 or the full year FY2020.

Equally, there is no denying that we may face many COVID-19 related uncertainties in FY2021. Let us touch upon a few.

First, pharmaceutical players worldwide have been hugely dependent on China for their supply of intermediates and APIs. We believe this will change. Global pharmaceutical majors will want to reduce their dependence on China; and there ought to be more backward integration as companies attempt to establish themselves as end-to-end manufacturers. Here, your company has an advantage, thanks to its significant in-house API facilities.

Second, we expect to see greater outlays in preventive healthcare and for public health emergencies. While that is good for all nations, and especially India where such spends are woefully inadequate, it is not certain how it will directly benefit pharmaceutical companies, other than hospital equipment suppliers.

Third, if the pandemic continues for another six to eight months as it is expected to, we should be prepared to see increasing delays in the treatment of other diseases. Hospitals and nursing homes all over the world have already begun to push back

admission of non COVID-19 patients. Delays in treating these patients could lead to worsening health conditions, as well as reduced demand for many pharmaceutical products.

Fourth, on the flip side, there can be an increased demand for over-the-counter (OTC) medicines. The COVID-19 outbreak has seen a significant upsurge in buying of OTC medicines, especially relating to immunity enhancement, vitamins, analgesics, and flu and anti-infective medication. This stockpiling is expected to continue in the short-term, and result in demand surges for OTC drugs.

Fifth, in the short-term we will see less face-to-face interaction between medical representatives and doctors. Given its importance, one might witness some negative impact on pharmaceutical sales. Here, we are at an advantage given our strong digital platforms.

Sixth, other than the race for COVID-19 vaccines, one might see some de-prioritization on R&D.

Finally, the pandemic will seriously affect medical tourism via travel restrictions. This, in turn, will reduce the consumption of pharmaceutical products across hospitals and selected pharma outlets.

Despite these significant uncertainties, we believe that successful execution of our strategy mentioned earlier - involving leadership in chosen spaces, operational excellence and continuous improvement, and patient-centric product innovation - will create the necessary levers to deal with this uncertain business environment.

Stay safe. Stay healthy.

With our best regards,



K Satish Reddy
Chairman



G V Prasad
Co-Chairman and
Managing Director

*As on 31 May 2020

OUR BUSINESSES

Global Generics (GG)

₹ 138.1 billion

▲ 12%



79.1% of net revenues

Revenue by geography

North America	India
₹ 64.7 billion ▲ 8%	₹ 28.9 billion ▲ 11%
Emerging Markets	Europe
₹ 32.8 billion ▲ 14%	₹ 11.7 billion ▲ 49%

GLOBAL GENERICS

Global generics is our biggest business driver. We offer more than 400 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 six products in the market and an industry leading pipeline spanning oncology and autoimmune diseases.

Pharmaceutical Services and Active Ingredients (PSAI)

₹ 25.7 billion

▲ 7%



14.8% of net revenues

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 API 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

₹ 10.7 billion

▲ 58%



6.1% of net revenues

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 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.

AURIGENE DISCOVERY

Aurigene Discovery, a wholly-owned subsidiary, is a clinical stage biotech company committed to bringing novel therapeutics for the treatment of cancer and inflammation. We have fully integrated drug discovery and development infrastructure from hit generation to clinical development. We have pioneered customized models of drug discovery and development collaborations with large-pharmaceutical, mid-pharmaceutical companies and Biotech.

More than 400 high-quality generic drugs

Differentiated formulations that present enhanced benefits

One of the world's largest manufacturers of APIs

Global Presence



FY2020

Highlights

Revenues

₹ 174.6 billion

EBITDA

₹ 46.4 billion

Profit after tax

₹ 19.5 billion

Diluted EPS

₹ 117.4

Filings

Generic filings

8 ANDA filings

As on 31 March 2020, 99 generic filings are pending for approval (97 ANDAs and 2 NDAs). Of these, 97 ANDAs, 54 are Para IV filings and we believe 30 of these have 'First-to-File' status.

DMF filings

10 DMFs filed in the US.

Launches

New products

168

NAG

27

Europe

40

Emerging Markets

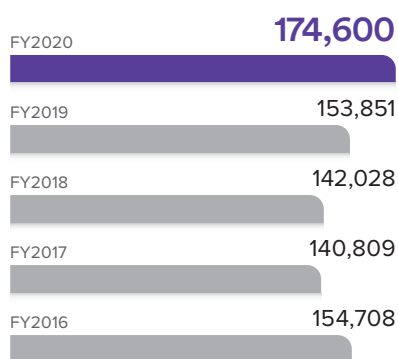
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India

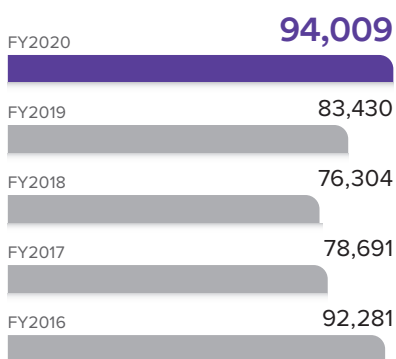
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KEY PERFORMANCE INDICATORS

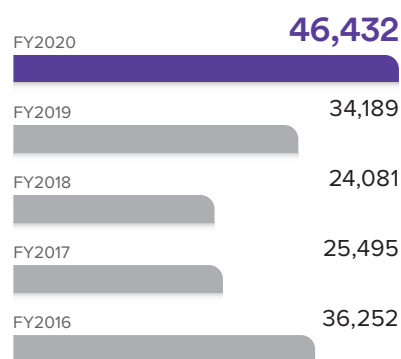
Revenues (₹ Million)



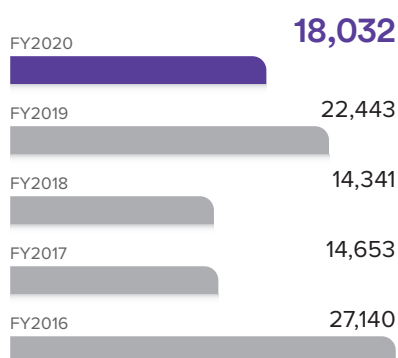
Gross Profit (₹ Million)



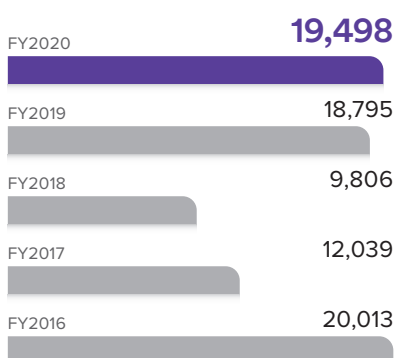
EBITDA (₹ Million)



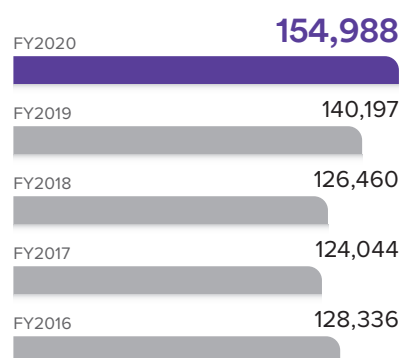
PBT (₹ Million)



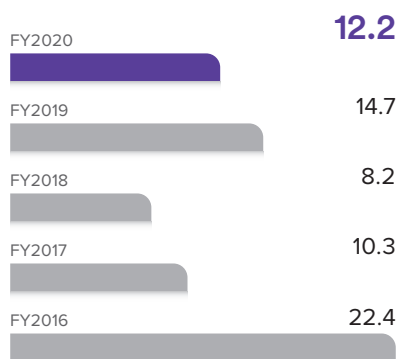
PAT (₹ Million)



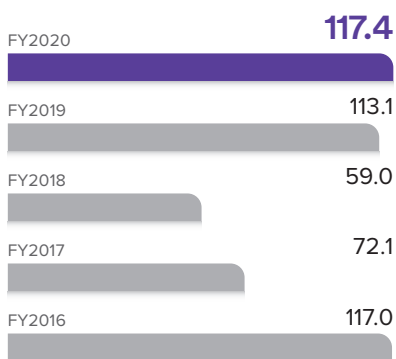
Net worth (₹ Million)



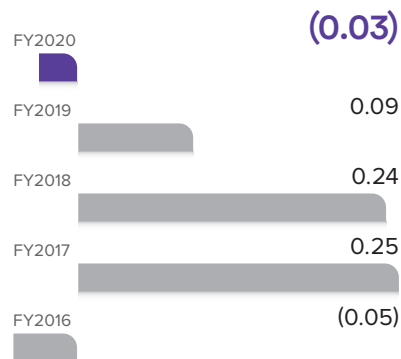
RoCE (%)



EPS (₹)



Net Debt to Equity Ratio



ACCELERATING THE TRANSFORMATION

We remain committed to our purpose, promise, people and the right way of doing business. Aligned with our belief, ‘Good Health Can’t Wait’, we are focusing on three strategic themes to accelerate our transformation journey – leadership in chosen spaces, operational excellence and continuous improvement, and patient-centric product innovation.

Operational excellence and continuous improvement

To achieve industry-leading growth in our chosen spaces, we are augmenting our capabilities in manufacturing, supply chain and quality by deploying tools and systems, digital technologies and data analytics. These initiatives are improving productivity and building better customer connect, while permeating our culture of quality, compliance, safety, and execution excellence in every function, unit and location of the company.

Even during COVID-19 times, our robust, efficient and seamless operations enabled us to support our partners and patients uninterrupted across the world.

Leadership in chosen spaces

We continue to strengthen our market presence and build leadership positions in each of the segments we operate in, with a well-crafted strategy. We are also exploring inorganic growth opportunities to accelerate access to high-quality and affordable medicines to patients globally, and, in the process, create value for all our stakeholders.

Patient-centric product innovation

We have put in place an enhanced R&D and technology-driven platform to address the evolving needs of patients, physicians and caregivers, through the development of innovative products, services and digital business models.



Celevida®

Addressing unmet nutritional needs of patients in India