

Chairman's address at 31st AGM

Transcript

As I stand here to speak to you on the occasion of our 31st Annual General Meeting, my thoughts go back to our founder Dr. Anji Reddy.

Many of you here are deeply familiar with the values and principles that he held dear. The world knew him as a visionary technocrat who built your company from scratch to a global conglomerate. However, those of us who were privileged to have worked and interacted closely with him, were privy to another side of his character – his sensitivity to the common man's need for affordable medicine, and the alacrity with which he acted on his convictions.

Friends, all around you, you can see our corporate identity and logo: the heart motif and the circular design elements.

I am proud to say that this new logo and identity stems from these fundamental traits of Dr. Anji Reddy. The heart shape represents the empathy that enables us to closely understand the needs of others. The circles connote the dynamism that drives us to address these needs innovatively and rapidly.

Our core belief - 'Good health can't wait' sums up in four words the conviction which impelled Dr. Anji Reddy when he established this company thirty one years ago, and which continues to drive us to this day.

Today, we are a globally recognized conglomerate of 20,000 professionals working with a common purpose – to make high quality innovative medicines affordable and accessible. We are bringing good health and saving lives in 26 countries and the mark we make on the worldwide pharmaceutical scenario is becoming more impactful by the day.

Last year, I touched upon the flame of innovation that our founder Dr. Anji Reddy kindled in us. This year I am happy to tell you that the flame continues to burn bright in Dr Reddy's. The filing of our 3 NDAs through our Proprietary Products business in North America and the exclusive collaboration agreement focused on immuno-oncology and precision oncology targets signed by our Drug Discovery subsidiary Aurigene with Curis, the US based biotechnology company is validation of this.

Let me now share with you my thoughts on developments in the industry that could directly or indirectly impact your company

Across the world, we have started to see a continued focus on accessibility,

affordability, and innovation. We expect the US to lead the growth with >5% growth in the pharma market on the back of new launches and economic recovery. This is a positive sign as the US represents a third of the global pharmaceutical market.

Indian players are moving slowly but steadily to the centre of the global generic market. Already, they have a 23% share of the generics market in the USA. This is being largely driven by injectables, as more products in this area are going off patent.

There is a growing trend towards consolidation, both on the manufacturing side and on the distribution and retail side. This creates pricing pressure and places a premium on having a diversified portfolio and a well-oiled, widespread supply chain. However, the other side of the coin is that consolidation often leads to divestment of brands, which represents an opportunity for companies like yours to enter new markets or strengthen our portfolio.

In certain markets we are seeing an increasing tendency on the part of governments to implement tighter controls on pricing. While the intention is undoubtedly laudable, this can sometimes be counter-productive as it affects the economic viability of products. A balance needs to be struck and there must be a mechanism to distinguish between, 'who is profiting and who is profiteering', as Dr. Anji Reddy used to put it.

Globally we are also seeing political instability and financial uncertainty in some emerging markets. Several companies have exited markets such as Venezuela owing to currency volatility. Dr. Reddy's continues to stay committed to these markets in keeping with our promise to make medicines accessible to patients who need them.

In fact this trait of ours to stay the course is not new to us. From the very beginning, we have been committed to ensuring access to medicines, irrespective of how challenging the eco-system might be. When it comes to meeting patient's needs, Dr. Reddy's has always done what's right not what's easy. Way back in 1998, when Russia was at the height of its financial crisis (some called it the Rouble crisis others the Russian flu), other companies fled. Literally fled. Dr. Reddy's stayed the course. The trust, goodwill and loyalty we built up by doing this at that time, has earned us today the distinction of being one of the most respected pharma companies in Russia and our 2nd largest market globally in terms of sales volumes.

Quality is another area where the pharma industry is having to stand up and be counted. Drug control authorities the world over, and the USFDA in particular, have

become more challenging in their audits. There is inter-governmental transfer of knowledge as well, which places the responsibility squarely on the industry to measure up.

In fact, with the rapid growth the industry is experiencing and , consequently, new product filings increasing, the USFDA too has reorganized itself to take a more holistic view of audits. Its compliance department has been disbanded and replaced with an Office of Pharmaceutical Quality (QPQ), with the sole objective of propagating a “One quality one voice” philosophy. The OPQ will focus on streamlining regulatory processes, advancing quality standards, and initiating a more structured surveillance of quality.

And to support all of this, the USFDA has now introduced user fees for reviewing applications to generate additional resources. This is a desirable step as it will accelerate the process and shorten the time to market.

At Dr. Reddy’s, we welcome these stricter quality regimes as we believe our inherent focus on quality will now give us an even stronger competitive edge.

In India, the industry continues to face its fair share of challenges – and this at a time when India has never needed greater clarity and focus on healthcare in its entire history.

Last year I talked to you about two issues that are negatively impacting healthcare in India – Pricing and Regulatory matters. Sadly, I do not have a positive progress report to provide you with on both these fronts one year down the line.

The encouraging news is that, despite the headwinds, the industry continues to grow at a healthy 14% and is expected to sustain this over the next few years. This is despite pricing controls put in place by the government and cumbersome approval procedures.

The industry urgently needs clarity on key issues such as the additional list of essential medicines and clinical trial frame works in order to achieve more predictable and planned growth.

Another point that I have stressed upon often on is the need to build an atmosphere in the country that fosters and incentivises discovery and innovation. This is critical if our industry has to grow and compete on really level terms in the global marketplace. Along with ‘Make in India’, we need a ‘Discover in India’ campaign. The good news is that a few first steps are being taken. Early this week, the Telengana Govt declared its intention to build a Pharmacy in Hyderabad, with a total envisaged investment of Rs.20,000 crores in the pharma sector. For its part, the Union Ministry of Chemicals and Fertilisers, under which our industry comes, has

also introduced initiatives aimed at making India a global innovation hub by the year 2020. All this augurs well for the Indian pharmaceutical industry as a whole.

So what does all this mean for your company?

It is no secret that Dr. Reddy's is looked upon to lead the way in India on many fronts - compliance, regulatory, policy, and more. It is a responsibility we take pride in. In an increasingly demanding regulatory scenario, which in my opinion can only be good for the Indian industry, an uncompromising focus on quality and safety is imperative at the individual, functional and organisation wide levels. Your company has set the benchmark and we will now continue to keep bettering our own high standards.

As a corporate citizen, we take our responsibilities very seriously and sustainability is a cause that we are fully committed to. We continuously innovate ways to reduce our carbon footprint by finding alternative, productive avenues to utilize waste products. A few examples: we minimize the disposal of hazardous potassium salts by recycling them into micronutrient fertilisers for horticultural crops; we divert sodium sulphate salts from landfills and upcycle them to become useful in the manufacture of paper and detergents; instead of incinerating hazardous organic waste, we supply it to cement manufacturers for use as auxillary fuel. All this has not only reduced the burden on landfills and helped preserve the environment, it has also resulted in savings of around Rs.15 crores annually.

Our enthused and empowered workforce remains our biggest strength and differentiator. Fully committed to our corporate vision and goals, they come in to work each morning with a single minded purpose – to deliver good health across the world by simplifying, innovating and understanding the needs of our patients. I must take this opportunity to place on record my appreciation of the unsurpassed effort put in by the Dr. Reddy's team in powering us to achieve our goals.

I began this speech by referring to the sensitivity that was characteristic of Dr. Anji Reddy and the empathy that is part of our corporate DNA. This is not confined to patients alone. If anything, its true extent at Dr. Reddy's can be gauged by the manner in which we wholeheartedly reach out to the many underprivileged sections of society to enable them to make sustainable livelihoods and become productive citizens. Much before the Government mandated a 2% of profit spend on CSR, Dr. Reddy's was way ahead of the curve. We have never shied away from giving back to the communities that we live and work in and that legacy continues today.

In his autobiography, 'An Unfinished Agenda', Dr. Anji Reddy has written about his motivation when he set up the Dr. Reddy's Foundation. In his words, and I quote, "It

occurred to me that I was a lucky one. Chance and fortuitous circumstance had time and again presented me with opportunities that I had grasped. The majority of the disadvantaged had never had the chance. I thought it would be wonderful if the foundation worked towards giving people a chance to grab an opportunity when it came by.”

This is the reason, starting with this year in March, why we decided to observe every anniversary of his passing away with a Week of Giving. The response we received to our initiative was overwhelming. During this week, every office and unit at Dr. Reddy's, across the world, and thousands of our employees, volunteered their time, effort and resources to work for specially selected charitable causes. Be it working with people living with HIV, spreading the message of good health and hygiene to orphan children, helping to keep hospitals clean, entertaining differently abled children...and many more such...our people demonstrated an inspiring largeness of heart that would have made Dr. Anji Reddy himself proud.

Indeed, we believe that there could not be a better way to commemorate his life.

In fact, last year we decided we needed to pause, step back and take stock of the impact our CSR activities were creating. During the financial year, our efforts focused on creating additional infrastructure, including expanding our CSR team, so that we could grow our programs, widen our reach and, above all, sharpen the monitoring and impact measuring systems so as to ensure that CSR Funds are optimally utilized. We also established Key Performance Indicators to facilitate this process.

Sometimes I wonder which gives me more satisfaction: the life saving business successes of Dr. Reddy's the company, or the life changing work of Dr. Reddy's Foundation and our CSR team. Indeed, I believe that it is as important to help make lives as it is to save them. Let me conclude my address by playing this very poignant video that says it much better than any number of words that I can string together.

I thank you for your continued support and faith in Dr. Reddy's.