

The cover features a large, close-up portrait of Saumen Chakraborty, a man with dark hair, a goatee, and glasses, wearing a light blue shirt. The background is a soft-focus outdoor setting. The IMA logo is in a red box at the top left, and the title 'CFO CONNECT' is in large black and red letters at the top right. The issue date and price are in the top right corner. The main headline 'Driving Strategic Growth' is at the bottom in large red letters. A list of topics is on the left side, and a bio for the CFO of the Year is on the right side.

IMA

CFO CONNECT

June 2016 ■ Rs 100

Cost and Cash Flows:

Two Sides of a Coin

HR as Strategic

Business Partner*

Seeking

Nutritional Security

IMA's CFO of the Year:
Saumen Chakraborty,
*President and Chief Financial
Officer, Dr Reddy's Laboratories*

Driving Strategic Growth

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Driving Strategic Growth

Much more than just practitioners of 'traditional finance', today's CFOs are experts in business strategy, macroeconomics, analytics and big data, technology, risk management, and talent acquisition and retention. Friend, philosopher and guide to the Chief Executive, and often his most impartial 'constructive' critic, the 21st Century CFO is also the organisation's steward of governance. A particularly fine example of a successful, modern-day CFO is Saumen Chakraborty, President and Chief Financial Officer at Dr Reddy's Laboratories (DRL), and this year's winner of the 'CFO of the Year' category in IMA's India CFO Awards.

Mr Chakraborty plays a multifaceted role at Dr Reddy's. As head of Finance, Business Process Excellence (BPE), and IT, he is a strategic planner, analytics wizard, technology evangelist, people's champion, and leader *par excellence* – all at once.

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Saumen Chakraborty:

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Much more than just practitioners of 'traditional finance', today's CFOs are experts in business strategy, macroeconomics, analytics and big data, technology, risk management, and talent acquisition and retention. Friend, philosopher and guide to the Chief Executive, and often his most impartial 'constructive' critic, the 21st Century CFO is also the organisation's steward of governance. A particularly fine example of a successful, modern-day CFO is Saumen Chakraborty, President and Chief Financial Officer at Dr Reddy's Laboratories (DRL), and this year's winner of the 'CFO of the Year' category in IMA's India CFO Awards.

Mr Chakraborty plays a multifaceted role at Dr Reddy's. As head of Finance, Business Process Excellence (BPE), and IT, he is a strategic planner, analytics wizard, technology evangelist, people's champion, and leader *par excellence* – all at once. He has also been the driving force behind a number of successful initiatives, such as the implementation of the mySAP Business Suite, and the introduction of a Theory of Constraints (TOC)-based approach to product development, manufacturing, supply-chain effectiveness, and execution excellence. These efforts have reaped huge benefits for the organisation at large, and for the Finance department specifically. This is just one of the reasons why he is our CFO of the Year.

Mr Chakraborty's focus on systems and governance is storied among his own Board and recognised also by industry regulators, who have lauded the quality of Dr Reddy's financial reporting and its high compliance standards. What makes this particularly commendable is that the firm must simultaneously adhere to multiple regulatory regimes. A comprehensive accounting manual that ensures harmonisation of accounting treatments across the organisation and is followed through with rigour is a key first step. The focus is on retaining strategic activities in-house to ensure correct prioritisation, and routine transactions have been moved to a Global Financial Reporting Centre of Excellence. The company has also voluntarily set up a Disclosure Committee, consisting of the CFO, a number of finance business partners, and the General Counsel, which proactively addresses disclosure issues.

In the past 12-18 months, Mr Chakraborty has taken business partnership to a whole new level, with the sole aim of creating enterprise value. He has enabled this by setting up transparent financial performance metrics across the organisation, ensuring that business decisions are grounded in sound financial analysis, and provid-

ing high quality analyses and insights to the business. Senior leaders mentor Finance business partners, and equip them with the necessary tools for faster turn-around times and greater accuracy. At the same time, a comprehensive 'scorecard' assesses individual Finance business partners on desired behaviours, as well as their contribution to the bottom line.

Centrally driven under his leadership, the firm-wide PACE (Programme to Achieve Cost and Capabilities Excellence) has helped make Dr Reddy's one of the world's leading generic-drug companies in terms of profitability. PACE's initial focus was on bringing down direct costs, including raw materials, solvents, and excipients, but it was later expanded to include administrative costs, sales and marketing spends, and portfolio rationalisation. The scope has since been widened further still to include R&D productivity and plant operational costs. In hindsight, PACE has proved instrumental to Dr Reddy's breakthrough performance, and to institutionalising a culture of cost excellence at the pharma major. Partly because of PACE, Mr Chakraborty's team is now delivering annual cost savings in the region of Rs 400 crores.

As head of BPE Mr Chakraborty leads a 'simplification' drive, which has an ambitious but well-grounded aim: implementing one 'simplifying idea' each week. Through ideation, periodic workshops on process improvement, and, most importantly, rigorous follow-up, this drive has yielded impressive results, with direct, measurable savings of about Rs 50 crores a year.

In the domain of supply chain management, Mr Chakraborty has stewarded a pull-based system, which is based on a consumption-centric replenishment model – as opposed to the more standard forecast-based models. This has enabled the real-time tracking of consumption, and significantly reduced the firm's 'risk inventory' requirement – which is meant to deal with possible exigencies. Additionally, a reliable and flexible supply chain has reduced the burden on channel partners, allowing Dr Reddy's products a substantial competitive advantage in the marketplace.

In terms of risk management – a key focus area for the organisation – Mr Chakraborty keeps a close eye on both financial and operational risks. This is vital to the sustainability of

SAUMEN'S PRESCRIPTION

Managing Debt

Maintain minimum debt. Cap net debt to equity ratio to 0.5

Handling Risks

Prioritise regulatory and compliance risk

Currency Volatility

Hedge balance sheet items totally and up to 50 per cent of forecasted cash flows

Business Performance

Promote a culture of cost excellence. Simplify processes for efficiency

Governance and Compliance

Harmonise accounting treatment to achieve consistency. Maintain oversight through Disclosure Committee

Technology

Leverage analytics to gain real-time business intelligence for effective decision making

Talent Management

Promote a culture of learning. Invest in staff development

any business, but particularly so for companies in the pharmaceutical sector, which are heavily exposed to the vagaries of the world economy, as well as to regulatory uncertainty. Capping its net debt-to-equity ratio at 0.5 helped Dr Reddy's balance the inherent operational risks, while avoiding having to carry negative interest. More recently, Finance channelled the company's spare cash into a stock buy-back, while continuing to provide for R&D and other capital spending – which is crucial to fuelling long-term growth and propping up the EPS ratio. With respect to hedging, Mr Chakraborty has defined a clear policy of hedging up to 50 per cent of the firm's cash flows, but a full 100 per cent of the balance sheet – and he never goes beyond an 18-month horizon. Dr Reddy's is today among India's five most active 'hedgers', and the treasury – by all accounts, one of India's finest – has generated over Rs 500 crores in savings in the last four years.

Having mentored numerous C-level executives across several large companies, Mr Chakraborty is also a highly regarded talent steward. At Dr Reddy's, he has institutionalised robust leadership development and talent management practices across the Finance and IT teams. This includes ensuring much higher levels of delegation, greater role enrichment, a senior management-led learning culture, transparent and fair performance-management practices, and greater cross-functional exposure at various levels. Under his

leadership, the Finance team is sharply focused on creating business impact, directly contributing – through cost-containment and value-creation – to at least 20 per cent of the reported PBT in fiscal 2015-16.

Under Mr Chakraborty's watch, Dr Reddy's has built up what is truly a technology-enabled Finance function. He has embraced the use of technology to gain visibility into the supply chain, track threats, contain risks, fine-tune existing business models, and enable real-time decision-making. His vision is to ensure that management decisions are made on the basis of a single version of the truth, and eventually, to move to predictive analytics for better revenue- and bottom-line forecasting. Mr Chakraborty draws a direct link between his department's use of technology and Dr Reddy's ability to compete successfully. By bringing in business intelligence tools and digital apps to aid decision-making at the distributors' end, he has helped differentiate his organisation from other, less tech-savvy companies.

The remainder of this article contains an in-depth assessment of Mr Chakraborty's role as CFO, business partner and BPE leader. Specifically, it explores how, as custodian of all of these diverse roles, he has managed to enable sustained and sustainable business growth of a level and quality that attracts respect across the globe. In every respect, it demonstrates how Mr Chakraborty lends glory to this year's award for CFO of the Year, rather than the other way around. ■

Saumen Chakraborty in conversation with CFO Connect

What are the Dr Reddy's strategic goals for the next 3-5 years?

Our strategic goals are aligned to the company's purpose of 'accelerating access to affordable and innovative medicines because good health can't wait'. In the next 3-5 years, our aim is to achieve the desired growth and profitability through several means: commercialising our complex generics portfolio across the regulated North American and European markets; commercialising the proprietary products pipeline; expanding our footprint in emerging markets in terms of geography, portfolio leverage and differentiated formulations; and through progress on the bio-similar portfolio in both regulated and emerging markets. It will be a transformational journey in terms of expanding the complexity of the portfolio with multiple dosage forms and using complex technology platforms while ensuring that the company retains its nimbleness.

What is Finance's role in achieving these objectives, and in enabling the business to manage change more effectively?

Finance would play a critical role in achieving these

objectives, and the department has a broad-based agenda in that regard. Finance teams will be central to setting up the governance structures that will enable growth. The department will dynamically restructure capital allocation to fuel growth and profitability. Finance teams are also expected to regularly provide strategic insights to business for timely decision-making. It will continue to actively manage and mitigate key risks that confront the company. All these measures will translate into Finance increasing its bottom-line contribution.



Which risks would you identify as key? Conversely, what are the key opportunity areas?

For Indian generic-pharmaceutical companies operating at a global level, risk comes in many forms: those related to regulatory compliance, political or economic, business-related, legal, market, and reputational. Of all the risks that lie ahead, regulatory and compliance have the most serious implications. That said, opportunities to add value also exist in multiple areas, such as reliable and flexible supply chains that are capable of providing industry-leading customer service, and the capability to develop complex and proprietary product segments. A strong culture of quality centricity and robust regulatory compliance are also opportunities for competitive advantage.

Enabling Business Performance

Under your leadership, the firm-wide 'PACE' (Programme to Achieve Cost and Capabilities Excellence) has reaped huge benefits. Why was this undertaken and what were the key focus areas?

A period of aggressive competition, and new regulations and guidelines necessitated the introduction of PACE, which helped us become one of the top global generics companies by profitability (EBITDA margin of 24 per cent of consolidated revenue in FY15). The programme operates through a series of focused phases, with each targeting a certain spend category. Each phase proceeds along four steps (the whole process can take up to 13 weeks to complete): aspiration setting, idea generation, idea finalisation, and implementation. All of the relevant stakeholders across functions are brought together to generate actionable ideas to improve productivity, decrease costs and eliminate waste.

PACE has enabled us to successfully reduce 5-8 per cent of spends across categories, in addition to arresting any cost escalations. It is now integrated with the budgeting exercise, where P&L heads take pride in having stretch cost and productivity targets. The success of the PACE programme can be attributed to top management support, a strong governance structure, the right reward and recognition mechanisms (such as gain sharing), and well-defined principles and guidelines.

You stewarded a pull-based supply chain system that yielded significant competitive advantage, especially in B2B markets. What are the key tenets of developing a reliable and flexible supply chain?

Our supply chain is based on a consumption-based replenishment model that is in sharp contrast to the usual forecast-based model of production. This enables us to track actual consumption by our customers – both distributors and pharmacies – to effectively deal with any surge in demand. Thus, not only do we gain visibility into the supply chain, enabling greater availability without excessive inventory, but we also gain insights

into the consumption patterns of our customers. This has lent considerable flexibility and reliability to the supply chain, which is a source of competitive advantage. It has also reduced instances of supply disruption, and therefore brought down the burden on our suppliers. For instance, in Russia, supply chain implementation had a favourable impact on the business churn. Generally, the channel inventory for other players is in excess of 75 days, while for Dr Reddy's it is around 30 days, with no availability constraints. However, in India, we are yet to gain complete visibility to the pharmacy level on account of a lack of authentic data. This is not the case with countries in North America and Europe, where we have achieved end-to-end visibility.

You manage the business process excellence (BPE) function, and simplification has been a key focus area there. Can you state specific examples on how, in terms of process as well as decision-making, this has come into play?

We realise the importance of being nimble-footed, and have therefore adopted the goal of continuously simplifying our organisational processes. We are one of the first few organisations to set up a BPE function alongside IT to ensure processes are embedded into our systems and workflow with the maximum-possible automation. We strive to work on at least one simplifying idea per week, cumulating to 52 every year. We've partnered with our internal corporate communication team to market the campaign and thus garner the greatest participation from all levels. We incentivise idea-sharing and focus on the implementable ones. Of the total ideas received, 20 per cent are selected and of these, 30, per cent are implemented. However, some ideas take longer to implement – as long as three to four months – and the IT and BPE teams keep a constant track of all ideas.

What benchmarks do you use when you are seeking to improve any operating parameter? Where applicable, how would you compare the initiatives above with global 'best in class' levels?

There are multiple operating parameters that we use as benchmarks to compare the current-period performance relative to past actuals (such as ROCE), and to compare ourselves with other companies. Several critical parameters are emphasised. The first is Throughput minus Operating Expenses (T-OE). Throughput is defined as sales minus totally variable cost. Further, after adjusting operating expenses, this comprehensive metric, applied across business units, measures the profitability generated. Any improvement in the T-OE is a prime measure of performance for us. The second measure is Return on Capital Employed (ROCE), which is another comprehensive tool that captures performance with respect to profits in relation to the capital employed. Better utilisation of the capital base is critical to a pro-

gressive improvement in this ratio. Based on the data available, we benchmark ourselves with the competition on an annual basis. Cost of Poor Execution (CoPE) is the third measure, and it includes the cost of poor quality and waste (though not the cost of poor decisions). It is monitored on a monthly basis in absolute terms and as a percentage of sales. We also have R&D-focused metrics that track R&D productivity using measures such as due date of performance (DDP), which help us understand the timelines of filings, and the deviations (if any). We also evaluate our product portfolio using net present value (NPV), and its estimated peak sales value (EPSV). Finally, we have front-end focused metrics such as per-capita monthly productivity (PCPM) of each sales representative. This helps us review outcomes across territories and align the field force accordingly.

You have many firsts to your credit, such as enhancing shareholder value through programmes such as bonus debentures and share buy-backs. Did such creative ideas face internal resistance?

When Dr Reddy's completed 25 years, part of the surplus reserves of the company were utilised to issue bonus debentures carrying interest coupons. We considered all of our current and anticipated operational and capex requirements before declaring this bonus. It is a highly tax efficient format of enhancing shareholder value. The share buyback was undertaken on the back of adequate free-cash flows, and after considering future operational and capital requirements. The share buyback provided a psychological support to what was a weak stock price. These initiatives were an outcome of a collaborative exercise involving the Finance team, the Board, and external consultants. We arrived at a final decision through consensus, and after much deliberation. Moreover, these programmes were implemented only after securing shareholder approval. Overall, these initiatives are expected to be EPS accretive.

Could you provide some insight as to how shareholder value is being created at Dr Reddy's on an on-going basis? How do you see the role of the CFO enabling this?

The primary mandate of the CFO is to be a champion of total shareholder returns. He has to view all practices, be it governance, investments, or compliance, from the lens of shareholder value. Ultimately, with the required support from the leadership team and the Board, the CFO is the custodian of all practices.

We maintain the highest governance standards, right from the Board down to the operational levels. These standards have always guided us to be fair, and ensure that the 'right' alternates are chosen even in situations that are contrary to external expectations. Further, having the best compliance and best disclosure standards has ensured credibility among shareholders. We are known for making strategic decisions that maximise

long-term expected value, even at the cost of lowering near-term earnings. We do invest in assets that have a near downside, but also a strong potential long-term upside. We have a track record of delivering in that regard. Lastly, returning surplus cash to shareholders through an appropriate mix of vehicles, such as share buy-backs and bonus debentures, has sent the right signals.

Partnering to Create Lasting Value

How did you build an effective Finance-business partnering model? What challenges did you overcome?

We have a fairly decentralised organisational structure that ensures every business unit/geography has a fair representation from Finance. The business partnering team is a combination of a controller and a planner. The controller is responsible for ensuring accuracy and completeness of the financial statements, along with adherence to all governance requirements. The planner is expected to provide insights to the business for timely decision-making. The business partnering team is equipped with the necessary automated tools to assist in faster and accurate delivery. The respective business finance teams meet periodically at a Controllers/ Planners Forum. These forums help in reviewing and sharing best practices across the board. However, in cases where there is conflict between the business interests and Finance's governance requirements, there is a well-set escalation process for resolution.

How can finance business partners keep their advice relevant to the changing needs of the business? What kind of training and tools do Finance business partners need? What qualities distinguish an effective business partner?

Relevance of advice is achieved when there is good overlap in the priorities of both business and Finance. The Controllers/Planners Forum that is held every month enables functional (Corporate Finance teams) and business finance teams to come on a common platform to discuss operational activities. This leads to the harmonising of policies and the sharing of best practices. Knowledge update sessions are held every quarter on topics such as analytics and accounting, and the latest updates and developments are shared with the business. Finance business partners are provided with analytical tools that enable them to convert operational data into useful insights. An effective business partner needs to exhibit a fair and objective outlook towards business, which involves a comprehensive understanding of the business model. Such traits are critical, and need to be honed over time.

How is finance business partner effectiveness measured and individual finance BP rewarded?

At the company level, Finance business partners are assessed on their direct contribution to the bottom

line, on providing quality insights to the business, and on resolving disputes with clients. We maintain a detailed scorecard for this purpose, which is collated and objectively evaluated. At the individual level, business partners are assessed by their immediate superiors on their respective KRAs.

How do you balance the Finance organisation's overall skills base to encompass core technical skills and business partnering optimally?

The underlying idea is to ensure that the Finance structure, competency model and resourcing disproportionately support the company's growth agenda. Certain functions or activities need greater focus, such as hypothesis-based analytics and insight generation, high quality prognostics, etc. We ensure that adequate resources are invested in such areas. At the same time, activities that are critical to the foundation of the function, such as SOX, Internal Audit, MIS, decision support, and pricing, are intensively focused on with the intent to maximise both automation and simplification.

Developing Future Finance Skills

You are a highly regarded talent steward who has mentored numerous Finance leads, who are today C-level executives in several large companies. How do you ensure a continuous supply of leadership talent required for future success?

I was fortunate to have quality talent in my team, people who had the potential to become C-level executives with right guidance. I cannot claim credit for any special mentoring, except for placing my trust and confidence in their abilities and allowing them space to perform. I always encourage internal talent growth except where there are shortages of niche skills, or when there are talent gaps. Currently, the organisation is focused on ensuring a continuous supply of talent at the entry level, and it has been recruiting fresh MBAs and CAs every year and grooming them on their domain expertise as well as leadership traits. While the supply of talent remains satisfactory, retention of talent continues to be an issue on account of poaching of critical people by competitors.

What skill sets have you sought to develop in your team, bearing in mind the coming decade and the preparedness of Dr Reddy's Finance team for the next phase of growth?

In an increasingly-competitive business environment, we recognise the need for the Finance function to play a critical role in driving the growth agenda. Over the years, our focus has been to enhance and strengthen partnering and business-facing activities, and to balance governance with guidance. We've made significant investments towards developing our staff's analytical abilities. We will continue to invest in building decision

support, and we value acceleration capabilities, both at the business unit and at the enterprise level. Top performers are those, who have the capacity to identify opportunities as well as to provide organic/ inorganic growth support. We also encourage people to work in an ambiguous and complex environment, which is the best form of on-the-job learning.

How did you inculcate a transparent and a consensus-driven team culture?

There are multiple measures undertaken to inculcate a culture of transparency and collaboration. For instance, the Finance Steering Committee (FSC), a governing body of the Finance function, which is chaired by the CFO, ensures that all matters related to finance, policy, and people are collectively discussed to arrive at a consensus-driven outcome. The Controllers and Planners Forums provide a platform for cross-functional teams to review operational performance and harmonise processes. An annual two-day offsite is dedicated to collectively brainstorming on the leadership development framework, and an annual three-day Global Finance Meet brings together the entire Finance team, including key members from overseas locations, who engage and bond with each other.

What are the 4-5 key metrics that you track to measure the efficiency of the Finance team?

The FSC reviews and guides on the development of each individual in the team. All Finance team members are mapped on a performance-potential matrix, while the details on the extent of support and specific interventions required are highlighted upfront. Individual scorecards track work goals, organisation-level initiatives, and stretch targets. Other metrics that are tracked include stakeholder feedback, ability to lead, coach/mentor, and subject matter expertise for staff in Tax, Treasury, Risk, Internal Audit and Compliance.

Leveraging Technology to Drive Business Value

How critical is technology in driving business value? How has the Finance department contributed towards that value?

Technology has had a huge role in shaping the changes that have come – and are coming – to Finance. Today, technology helps to successfully manage manual



processes and reduce costs. Increasingly, however, Finance is also looking to technology to change the way the Finance function and other business units can understand, interpret, and manage their financial information. True real-time analytics is a reality and can enable better-decision making after collating insights from markets, organisations and business partners to create a single version of the truth. Analytics enables hypothesis-testing, pattern-tracking, and the accurate prediction of revenues and the bottom-line. Technologies like biometrics, Big Data analysis, social media tracking, and geopolitical analytics are imperatives to reducing risk. Mobile apps and the Cloud serve Finance's objectives of increasing productivity and enabling collaboration. Other new-age technologies, such as closed-loop marketing using tablet-based CRM solutions, are examples of changing business models, and adopting them early on could lead to significant competitive advantages.

What technology initiatives have you undertaken to improve supply-chain visibility and reduce your working capital requirements?

We implemented a complete software solution called i2 (Intelligent Integration) to plan and orchestrate our supply chain centrally using a single system. This ensures end-to-end integration of the supply chain, which gives us the competitive advantage to respond quickly to changing market conditions. The analytics from i2 are integrated with our overall dashboard, providing visibility and enabling timely action on optimising working capital.

Do you see IT and the role of the CIO expand or contract in the future as technology comes increasingly in the domain of the CFO as an efficiency and forecasting accelerator?

The CFO-CIO relationship is becoming closer and more collaborative – many CIOs now report into CFOs. Therefore, it is critical to start looking at CIOs as enablers of the digital agenda, as against being cost centres. Even otherwise, there is a need to collaborate effectively with CIOs, as this will enable the Finance function to move beyond being the original owner of the 'System of Records' and towards owing the 'System of Differentiation and Innovation'.

Mitigating Risks

The Risk Management model at Dr Reddy's has been recognised as among the finest in the country. Could you provide insight into its structure and how responsibilities are divided, Board downwards, all the way to the frontline?

Dr Reddy's has established a dedicated risk-management committee to integrate and strengthen its global risk-management structures. The committee draws upon diverse experience and expertise of Board

members. It has appointed a Chief Risk and Compliance Officer (CRO), who reports into the CFO and the Chairman of the Risk Management Committee. The CRO acts as strong link between the committee and business teams, and works closely with the Chief Ombudsman (who is an Independent Director on the Board). The Risk Management Committee reviews residual risks and risk appetite quarterly, seeks guidance from internal subject-matter experts on key risk areas (IT security, quality, Intellectual Property, etc.), and crafts action plans to deal with risk exposures. The Finance, Investment and Risk Management Council, chaired by the CFO, also carries out risk assessments every month, which are tabled for discussion during the quarterly Risk Committee meetings. The committee maintains regular communication with the central ERM team and collaborates extensively with other Corporate Assurance functions (Internal Audit, SOX, Compliance, Quality Assurance, Corporate Safety, Legal) as well as with subject-matter experts to identify, analyse and evaluate key risks.

How do you build in accountability for the forecasting and management of risk within the business?

The key is to identify the right metrics and regularly review them to ensure accountability. We maintain individual scorecards at the function and business-unit level that capture detailed metrics on matters such as hygiene, risk management, and people. Annually, the risk team reviews the capital allocation imperatives and strategy plans of business teams to identify and analyse underlying risks. On an on-going basis, we review business units on cost of poor execution (CoPE) metrics such as wastage, under-utilisation, write-offs, etc. to ensure oversight.

How do you balance risk management against the objective of aggressive growth?

Dr Reddy's classifies risks into three categories: external, preventable and strategic. Preventable risks are internal and controllable ones that must be avoided, though it takes a robust culture and strong risk-mitigating measures to do so consistently. External risks such as foreign currency and interest risks are dealt with



through hedging strategies and structured products. Strategic risks are ones that the company takes knowingly, which requires first defining its risk appetite in financial terms, usually as a percentage of EBITDA, and running an FMEA analysis and Monte Carlo simulations that consider the probability, severity and likely timeframe of each risk. The likely and worst-case scenarios are laid out, and these are weighed against what is permissible, and reviewed on a quarterly basis by the management and Risk Management Committee. Non-financial risks are monitored using lead and lag indicators, and suitably escalated, while safety and ethical violations have low thresholds at Dr Reddy's.

What makes your treasury team among the best in the country in terms of innovation and performance? How do you manage currency volatility?

The treasury team at Dr Reddy's is amongst the best corporate treasuries in India, and is ranked among the top 5 most active hedging corporates in foreign currency derivative markets. We actively manage interest rate and foreign exchange risks arising from currency transactions and translation of foreign currency assets and liabilities. We use a variety of derivative and option strategies and other structured products for this purpose. This not only hedges us against currency fluctuations, but also benefits us in case of large market swings. For instance, we use a USD-INR range-forward option strategy that on the one hand, protects us in case the Rupee appreciates, while on the other hand lending an opportunity in case the Rupee depreciates. We were one of the earliest to adopt the principles of hedge accounting under IAS 39.

We are also one of the few Indian companies to adopt one-month Libor-based floating rate foreign currency loans. Despite being a net-debt company, the treasury team has contributed net interest income to the profit base. This was made possible by near-accurate prediction of interest rates, and by high quality loan negotiations. To highlight a specific instance, when the majority of corporates were taking short-term foreign currency credit loans with a maturity of 6 months, we took the same loan with a maturity of 1 year as it offered better spreads. During FY16, our average spread on the total outstanding foreign currency packing credit loans was around 8 bps, with the lowest spread being negative 5 bps.

We are also among the few companies in India to implement host-to-host connectivity with banks for seamless payment processing, bank reconciliations, leading to better cash management. The treasury team's impact has been significant: it has contributed over Rs 500 crores in savings in the last 4 years, accounting for 5.2 per cent of earnings before tax (EBT). On top of that, the team is responsible for protecting budget rates from currency fluctuations, which in turn enables business teams to focus on their core activities effectively.

Driving Excellence in Corporate Governance

You seem to have effectively prioritised the finance team's objectives in the Board's charter. What practices did you adopt in that regard? What is the role you play in this?

There is a regular interaction between the FSC and the Audit Committee. The Chairman of the Audit Committee attends the Finance Controller and Planner Forum meetings, where he has an open dialogue with members of the Finance team. The team members get an opportunity to closely interact with the Board, while the Board gets to experience the bench strength of our Finance talent.

How do you align Chief Executive and Board aspirations, bearing in mind longer-term shareholder value creation, which would be your end goal?

It has always been in Dr Reddy's DNA to prioritise long-term shareholder value, even if that comes at the cost of short-term benefits. Our founder's dream is to ensure that the organisation lasts for 500 years, which can only be possible by creating shareholder value on a sustainable basis. The annual Board retreats are helpful in aligning the strategy, goals, and aspirations of the CEO and the Board towards the organisation's sustained performance.

You and your team have built robust systems to ensure high levels of integrity in reporting across a variety of GAAP systems (US GAAP, IFRS, Ind-AS). How do you ensure consistency in high standards of transparency and disclosures whilst satisfying stakeholders' information needs?

Dr Reddy's has adopted a highly structured approach in setting up the reporting process. Consistency in disclosure is achieved through a comprehensive accounting manual that ensures harmonisation of accounting treatments across the organisation. We moved routine activities to a Global Financial Reporting Centre of Excellence to focus on high-value strategic activities. This has ensured higher standards. Team members are regularly trained and certified to ensure that they remain updated with key developments. The company has also voluntarily set up a Disclosure Committee consisting of CFO, Finance business partners, and the General Counsel, to proactively address disclosure issues.

What organic and/or inorganic strategies have you adopted to optimise the effective tax rate?

The direct tax team continuously strives to optimise the effective tax rate within the prevailing regulatory framework. The team has made major contributions to lowering the tax rate through weighted average tax deduction on R&D spends; setting up manufacturing units in backward locations in India; and the optimal restructuring of certain transactions. ■