

DIRECTORS' REPORT

To the Members

Your Directors have pleasure in presenting their report on the business and operations of your Company for the year ended March 31, 2018.

Financial Results

(₹ in million)

| | Standalone | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 2017-18 | 2016-17 | 2017-18 | 2016-17 |
| Sales | 98539.0 | 123980.8 | 155598.4 | 171198.0 |
| Profit before interest, depreciation and tax | 22169.8 | 45745.9 | 32978.6 | 45996.5 |
| Less: Finance Costs | 332.4 | 294.2 | 2043.5 | 1525.3 |
| Less: Depreciation and amortisation | 3898.1 | 3661.1 | 10858.7 | 9122.3 |
| Profit before share of profit from Jointly Controlled Entity and exceptional items | 17939.3 | 41790.6 | 20076.4 | 35348.9 |
| Add: Share of Profit from Jointly Controlled Entity | - | - | 35.2 | 82.5 |
| Less: Exceptional Items (Impairment of intangible assets) | - | - | 14643.5 | - |
| Less: Provision for taxation (including deferred tax) | 4492.7 | 10377.3 | 2884.6 | 9785.1 |
| Profit after tax and before non-controlling interest | 13446.6 | 31413.3 | 2583.5 | 25646.3 |
| Less: Non-controlling Interest | - | - | 70.9 | 71.7 |
| Net Profit attributable to shareholders of the Company | 13446.6 | 31413.3 | 2512.6 | 25574.6 |

Performance Review

Consolidated sales for the year ended March 31, 2018 were ₹ 155598.4 million. International business contributes 71%. Consolidated profit before interest, depreciation & amortisation, exceptional item and tax was ₹ 32978.6 million as against ₹ 45996.5 million of the previous year mainly on account of lower sales and margins in the USA. Net profit for the year after exceptional item (impairment of certain intangible assets) was ₹ 2512.6 million.

Impairment provision

On March 8, 2016, the Company, through its wholly-owned subsidiary, Lupin Inc., USA, acquired Gavis Pharmaceuticals, LLC, USA, Novel Laboratories, Inc., USA, VGS Holdings, Inc., USA, Edison Therapeutics, LLC, USA and Novel Clinical Research (India) Private Limited, India (collectively 'Gavis'), for a consideration of USD 892 million. The consideration paid was allocated between IPs for current marketed products, ANDAs filed, products under R&D, fixed assets, working capital and goodwill on acquisition. Significant pressure in the US generic pricing, particularly in the opioid space (large part of Gavis portfolio), resulted in impairment on certain intangible assets acquired as a part of Gavis acquisition. Each product in the Gavis portfolio was tested for its fair value factoring the current and expected market conditions by comparing the carrying value in the books with the value in use. The fair value was determined by an independent external valuer after taking into consideration parameters like sales growth, weighted average cost of capital, terminal growth rate etc. In line with conservative accounting principles, an impairment provision of USD 227.2 million (₹ 14643 million) was made on certain intangible assets of Gavis portfolio. Deferred tax for the year ended March 31, 2018 includes deferred tax assets of ₹ 3223 million created on the difference between tax and book value of certain intangible assets of Gavis portfolio.

Dividend

Your Directors are pleased to recommend dividend at ₹ 5/- per equity share of ₹ 2/- each, absorbing an amount of ₹ 2260.5 million. Corporate tax on proposed dividend is ₹ 464.7 million.

As stipulated by Regulation 43A(1) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations'), the Dividend Distribution Policy has been hosted on the website of the Company www.lupin.com, (web link: <http://www.lupin.com/pdf/16/08/policy-for-dividend-distribution.pdf>).

Share Capital

During the year, the paid-up equity share capital of the Company rose by ₹ 1 million consequent to the allotment of 505,981 equity shares of ₹ 2/- each to eligible employees of the Company and its subsidiaries on exercising stock options under 'Lupin Employees Stock Option Plan 2003', 'Lupin Employees Stock Option Plan 2005', 'Lupin Employees Stock Option Plan 2011', 'Lupin Employees Stock Option Plan 2014', 'Lupin Subsidiary Companies Employees Stock Option Plan 2005' and 'Lupin Subsidiary Companies Employees Stock Option Plan 2011'. Paid-up equity share capital as on March 31, 2018 was ₹ 904.2 million.

Credit Rating

ICRA Limited (ICRA) assigned the rating '**ICRA A1+**' (pronounced 'ICRA A one Plus') for the Company's short-term credit facilities of ₹ 13100 million, indicating very strong degree of safety regarding timely payment of financial obligations and '**ICRA AAA**' (pronounced 'ICRA triple A') for long-term credit facilities of ₹ 1900 million, indicating highest degree of safety regarding timely servicing of financial obligations. The outlook on the long-term rating is 'Stable'.

ICRA assigned the rating '**ICRA AAA**' to the Company's Non-Convertible Debenture programme of ₹ 1000 million, indicating highest degree of safety regarding timely servicing of financial obligations. The outlook on the rating is 'Stable'.

Goods and Services Tax (GST)

GST, which was implemented on July 1, 2017 as 'one nation one tax', is an all pervasive event. It has comprehensively impacted consumption of all goods and services, triggering a colossal change in the way business dealings take place. GST, which is still evolving, provides an opportunity to reset the way business transactions could be optimized for efficiency in cost and quality. Due to its multifaceted impact, GST has become an important factor in competitive businesses environment.

GST on API and Formulations is 18% and 12% respectively. While the headline indirect tax rate on API/Bulk drugs remains constant, the rate increased from 10.5% to 12% on Formulations. However, the increase in headline tax is likely to be offset by the tax efficiencies that may accrue on procurements.

Your Company is geared to deal with the challenges thrown up as a result of numerous amendments made by the Government viz: implementation of E-Way Bill system, matching credit concepts, anti-profiteering provisions, etc.

Acquisitions

During the year, the Company through its US subsidiary, Lupin Inc., acquired Symbiomix Therapeutics, LLC. The acquisition of Symbiomix and its Solosec™ franchise significantly expands your Company's branded women health specialty business.

Subsidiary Companies/Joint Venture

As on March 31, 2018, the Company had 33 subsidiaries and a joint venture.

On February 5, 2018, Lupin Atlantis Holdings SA, Switzerland, wholly-owned subsidiary of the Company, incorporated Lupin Europe GmbH, Germany, for holding product registrations.

An application has been made to the Registrar of Companies, Bangalore, for removal of the name of Novel Clinical Research (India) Pvt. Ltd., wholly-owned subsidiary of the Company, from the Register of Companies w.e.f. March 27, 2018 and Order pursuant to the said application is awaited.

Pursuant to the first proviso to Section 129(3) of the Companies Act, 2013 ('Act') and Rules 5 and 8(1) of the Companies (Accounts) Rules, 2014, salient features of the financial statements, performance and financial position of each subsidiary and joint venture are given in Form No. AOC - 1 as **Annexure 'A'** to this Report.

As stipulated by Regulation 46(2)(h) of the Listing Regulations, the policy for determining material subsidiaries has been hosted on the Company's website www.lupin.com (web link: http://www.lupin.com/pdf/Policy_for_determining_material_subsidaries.pdf).

Management Discussion and Analysis

As stipulated by Regulation 34(3) read with Schedule V(B) of the Listing Regulations, Management Discussion and Analysis forms part of this Annual Report.

Corporate Governance

As stipulated by Regulation 34(3) read with Schedule V(C) of the Listing Regulations, Corporate Governance Report forms part of this Annual Report. Annexed to the said Report is the Auditors' certificate as prescribed under Schedule V(E) of the Listing Regulations certifying compliance with the conditions of corporate governance.

Business Responsibility Report

As stipulated by Regulation 34(2)(f) of the Listing Regulations, the Business Responsibility Report forms part of this Annual Report.

Corporate Social Responsibility (CSR)

In dedication of high moral values, Lupin Human Welfare and Research Foundation (LHWRF), the CSR arm of the Company, has been undertaking social responsibility activities since 1988. LHWRF forges knowledge partnerships with domain experts and reputed academic and technical institutes like IITs, to develop and deploy appropriate technologies to the rural poor. LHWRF mobilizes resources from banks and government to achieve high impact in its chosen geographic area of operations. LHWRF which operates across 18 centers has touched lives of more than 2.5 million residing in more than 4171 villages located in 62 blocks of 22 districts.

LHWRF carried out GRI 4 sustainability reporting process and it is first corporate foundation to do so in India. LHWRF possesses elaborate and well-set implementation mechanism at grass-root level and creates replicable and ever-evolving models for sustainable rural development for uplifting families living below the poverty line with a view to transform rural lives and improve Human Development Indices. LHWRF adopts a holistic development approach and focuses on rural development programmes which help promote equitable economic and social development.

Pursuant to the provisions of Section 135 of the Act read with Companies (Corporate Social Responsibility Policy) Rules, 2014, the Company ought to have spent ₹ 750.5 million on CSR activities during the year. The actual spend was ₹ 216.8 million. The Company undertakes the following CSR activities: -

- Economic Development;
- Social Development;
- Natural Resource Management;
- Rural Infrastructure Development;
- Learn and Earn Programme; and
- TB Eradication.

The Company plans to accelerate its CSR spend by setting-up a state-of-the-art JCI and NABH accredited hospital through 'Lupin Foundation', a charitable trust, set up by the Company. The proposed hospital would offer a wide mix of therapies which shall entail huge investment in land, infrastructure, medical equipments/instruments, over the next few years. The Company has also engaged services of a reputed consultancy firm for conducting preliminary feasibility study. The Company is in the process of identifying the right opportunity and is looking out for a suitable plot in Mumbai for setting-up a hospital. The Company has explored eight sites in Mumbai, keeping in mind strategic location, accessibility, presence of major hospitals/nursing homes and diagnostic/pathology centers in the vicinity, etc. While some plots were narrow or too small, others were reserved in the Development Plan or were encroached upon or had disputed titles.

In the course of business, the Company spent on a number of social causes which strictly may not qualify as CSR activities viz., 'Punarjyoti' ('Rebirth of Eyes'), campaign which promotes the noble message of eye donation after death, 'Respiratory Clinics' to increase awareness of respiratory diseases, 'Focused Learning in Interventional Pulmonology' programmes for doctors, multilingual website 'Right2breathe' to educate patients about Asthma and Allergies. With a view to provide affordable medicines to the common man, the Company consistently spends large amounts on Research & Development which, though, is for a social cause, does not qualify as a CSR activity.

Particulars of CSR activities undertaken by the Company are given in **Annexure 'B'** to this Report. The CSR policy as approved by the Board has been hosted on the Company's website www.lupin.com.

Directors' Responsibility Statement

In compliance with the provisions of Section 134(3)(c) read with Section 134(5) of the Act, your Directors confirm: -

- i) that in the preparation of the annual financial statements for the year ended March 31, 2018, the applicable accounting standards have been followed along with proper explanations relating to material departures;
- ii) that they had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of your Company at the end of the financial year March 31, 2018 and of the profit of your Company for that year;
- iii) that they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) that the annual financial statements have been prepared on a going concern basis;
- v) that they had laid down proper internal financial controls and that the same are adequate and were operating effectively; and
- vi) that they had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

Directors

The Board places on record the invaluable contributions of Late Dr. Desh Bandhu Gupta, Founder & Chairman of the Lupin group and doyen of the Indian Pharma Industry who passed away on June 26, 2017. The exemplary vision and perseverance of Dr. Gupta helped the Company to become one of the most admired organisations. The Board appointed Mrs. Manju D. Gupta as Non-Executive Chairman of the Company, for a period of two years, effective August 11, 2017 considering her wide experience, moderating influence and quiet demeanor.

As recommended by the Nomination and Remuneration Committee, the Board, at its meeting held on May 15, 2018, re-appointed Mr. Nilesh Deshbandhu Gupta, Managing Director, for a period of five years, effective September 1, 2018, subject to approval of the Members. Mr. Gupta has been responsible for transforming the Company's research programme and expanding its manufacturing operations as also instrumental in formulating and executing the core strategy that helped the Company to emerge as a global specialty pharmaceutical major.

Pursuant to the provisions of Section 152 of the Act, Mr. Ramesh Swaminathan, Chief Financial Officer & Executive Director, retires by rotation at the forthcoming Annual General Meeting (AGM) and is eligible for re-appointment.

Pursuant to the provisions of Section 149(7) of the Act, the Independent Directors have affirmed that they meet the criteria of independence prescribed by Section 149(6) of the Act.

During the year, six Board meetings were held, on May 23, 2017, May 24, 2017, August 2, 2017, August 11, 2017, October 30, 2017 and February 6, 2018, the details of which are given in the Corporate Governance Report which forms part of this Annual Report.

Board Evaluation

Pursuant to the provisions of Section 134(3)(p) of the Act read with Rule 8(4) of the Companies (Accounts) Rules, 2014, an annual evaluation was carried out by the Board of its own performance as also of its Committees and individual Directors. The evaluation was done by the Board after seeking inputs from all Directors, inter-alia covering different aspects viz. composition and structure of the Board, attendance including participation of the Directors at the Board and Committee meetings, observance of governance, quality of deliberations and effectiveness of the procedures adopted by the Board. In evaluating the performance of individual Directors, criteria such as qualifications, knowledge, attendance at meetings and participation in long-term strategic planning, leadership qualities, responsibilities shouldered, inter-personal relationships and analytical decision making ability were taken into consideration. In compliance with Regulation 17(10) of the Listing Regulations, the Board carried out performance evaluation of Independent Directors without the participation of the Director being evaluated.

Audit Committee

In compliance with the provisions of Section 177(8) of the Act and Regulation 18 of the Listing Regulations, the Audit Committee comprises Dr. K. U. Mada, Chairman and Mr. Dileep C. Choksi, Independent Directors and Dr. Kamal K. Sharma, Vice Chairman. The functions performed by the Audit Committee, details of meetings held and attendances thereat are given in the Corporate Governance Report, which forms part of this Annual Report. The Board has accepted all the recommendations made by the Audit Committee.

Nomination and Remuneration Policy

As stipulated by Section 178(3) of the Act and Regulation 19(4) of the Listing Regulations, the Board has, on the recommendation of the Nomination and Remuneration Committee, framed a Policy relating to the remuneration of Directors, key managerial personnel and other employees. The Policy includes criteria for determining qualifications, positive attributes and independence of directors and other matters. The role of the Nomination and Remuneration Committee is disclosed in the Corporate Governance Report, which forms part of this Annual Report. In terms of proviso to Section 178(4) of the Act, the Nomination and Remuneration Policy has been hosted on the Company's website [www.lupin.com](http://www.lupin.com/pdf/18/05/nomination-and-remuneration-policy-ll.pdf) (web link: <http://www.lupin.com/pdf/18/05/nomination-and-remuneration-policy-ll.pdf>).

Related Party Transactions

During the year, no transaction with related parties was in conflict with the interests of the Company. All transactions entered into by the Company with related parties during the financial year were in the ordinary course of business and on an arm's length pricing basis. The Company did not enter into any transaction with its Key Managerial Personnel. Statements of transactions with related parties are periodically placed before the Audit Committee and are approved. Material related party transactions were entered into by the Company only with its subsidiaries. As stipulated by Section 134(3)(h) of the Act read with Rule 8(2) of the Companies (Accounts) Rules, 2014, particulars of related party transactions are given in Form No. AOC - 2, as **Annexure 'C'** to this Report. In compliance with Regulation 46(2)(g) of the Listing Regulations, the policy on dealing with Related Party Transactions as approved by the Board has been hosted on the Company's website [www.lupin.com](http://www.lupin.com/pdf/POLICY-RELATED_PARTY_TRANSACTIONS.pdf) and web link for the same is http://www.lupin.com/pdf/POLICY-RELATED_PARTY_TRANSACTIONS.pdf.

Risk Management

The Company has a structured approach for handling risks. It has in place a Risk Management framework which defines roles and responsibilities at various levels. Risk Management team reviews the overall risk canvas and identifies critical 'risks that matter' by assessing their probability, impact and volatility. The Risk Management Committee has a well-set monitoring process of the risk environment through reviews, discussions and deliberations and it deploys concrete mitigation plans. As stipulated by Regulation 21 of the Listing Regulations, the roles and responsibilities of the Risk Management Committee has been defined by the Board. Monitoring and reviewing the risk management plan was delegated to the Committee. Particulars of the Risk Management Committee its terms of reference, the details of meeting held and attendance thereat are given in the Corporate Governance Report, which forms part of this Annual Report.

Particulars of loans/guarantees/investments/securities

In compliance with provisions of Section 134(3)(g) of the Act, particulars of loans, guarantees, investments and securities given under Section 186 of the Act are given in the notes to the Financial Statements forming part of this Annual Report.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo

Particulars as prescribed under Section 134(3)(m) of the Act read with Rule 8 of the Companies (Accounts) Rules, 2014 relating to conservation of energy, technology absorption and foreign exchange earnings and outgo, are given in **Annexure 'D'** to this Report.

Human Resources

Your Company firmly believes that human resources are invaluable assets of the Company. In the surveys jointly conducted by 'Great Places to Work Institute' and 'The Economic Times', the Company continued to be ranked high on a pan-industry basis. The Company has been ranked no. 1 in the Pharmaceutical and Biotech sector and 4th Best amongst Large Employers. The Company's progressive 'people practices', deep rooted value-driven culture and employee development efforts have been the prime reasons behind these laurels.

Employees Stock Options

Pursuant to the provisions of Regulation 14(B) of SEBI (Share Based Employee Benefits) Regulations, 2014, details of stock options as on March 31, 2018 are given in **Annexure 'E'** to this Report.

Vigil Mechanism/Whistleblower Policy

As stipulated by Section 177(9) of the Act read with Rule 7 of the Companies (Meetings of Board and its Powers) Rules, 2014 and Regulation 22 of the Listing Regulations, the Company has in place a vigil mechanism for Directors and employees to report concerns and provides adequate safeguards against victimization of persons who use the mechanism. The vigil mechanism provides for direct access to the Chairperson of the Audit Committee. Details of the same are covered in the Corporate Governance Report which forms part of this Annual Report. Whistleblower Policy has been hosted on Company's website www.lupin.com. Policy on Prevention of Sexual Harassment is on Company's Intranet.

Particulars of Employees Remuneration

As prescribed by Section 197(12) of the Act read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, particulars of remuneration of employees required to be disclosed are given in **Annexure 'F'** to this Report. In terms of Rules 5(2) and 5(3) of the said Rules, statement containing particulars of remuneration of employees for the year ended March 31, 2018, which forms part of the Board Report shall be provided to Members upon written request pursuant to the second proviso of Rule 5. Particulars of remuneration of employees are available for inspection by Members at the Registered Office of the Company during business hours on all working days up to the date of the forthcoming AGM.

Auditors

At the 34th AGM held on Wednesday, August 3, 2016, Members appointed B S R & Co. LLP, Chartered Accountants (Firm Registration No. 101248W/W-100022), as Statutory Auditors of the Company, for a period of five years from the conclusion of the 34th AGM till the conclusion of the 39th AGM, subject to ratification of their appointment by Members at every AGM.

Pursuant to the provisions of Section 40 of the Companies Amendment Act, 2017, which was notified on May 7, 2018, Members are not required to ratify appointment of Statutory Auditors at every AGM.

Pursuant to the provisions of Sections 139(1) and 141 of the Act, the Company has received Certificate from B S R & Co. LLP, certifying that if they are appointed as Auditors, their appointment would be as per the conditions prescribed by the said Sections.

Internal Audit

Ernst & Young LLP, Mumbai, are Internal Auditors of the Company for India operations. PricewaterhouseCoopers Private Limited are Internal Auditors of the Company for international subsidiaries. The Company has appointed local Chartered Accountants firms as Internal Auditors to conduct audits of Carrying & Forwarding Agents and Central Warehouses of the Company in India.

Cost Auditors

Pursuant to the provisions of Section 148 of the Act read with the Companies (Cost Records and Audit) Amendment Rules, 2014 and as recommended by the Audit Committee, the Board had appointed Mr. S. D. Shenoy, practising Cost Accountant (FCMA, Membership No. 8318), holding a valid certificate of practice to conduct cost audit for the year ended March 31, 2018. Mr. Shenoy had confirmed that his appointment met the requirements of Section 141(3)(g) of the Act and that he was free from disqualifications as specified under Section 141 read with Section 148 of the Act. He had further confirmed that he was independent, maintained an arm's length relationship with the Company and that no orders were pending against him relating to professional matters of conduct before the Institute of Cost Accountants of India or any court/competent authority.

In terms of Rule 14 of the Companies (Audit and Auditors) Rules, 2014, remuneration payable to the Cost Auditor is required to be ratified by Members. Accordingly, an Ordinary Resolution was passed by Members at the 35th AGM, approving the remuneration payable to Mr. Shenoy.

In compliance with Section 148(6) of the Act and Rule 6(6) of the Companies (Cost Records and Audit) Rules, 2014, Cost Audit Report, in Form CRA - 4 (XBRL mode), for the year ended March 31, 2017, under the head 'Drugs and Pharmaceuticals' was filed with the Central Government on October 18, 2017, well within the prescribed time.

Secretarial Audit

In terms of the provisions of Section 204 of the Act and Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, Ms. Neena Bhatia, Company Secretary in Practice, was appointed to undertake Secretarial Audit of the Company for the year ended March 31, 2018. Secretarial Audit Report in prescribed Form No. MR - 3 is enclosed as **Annexure 'G'** to this Report. The Company continues to have an unqualified Secretarial Audit Report.

Compliance with the Secretarial Standards

The Company has complied with all the provisions of Secretarial Standards on Board Meetings and General Meetings issued by the Institute of Company Secretaries of India and approved by the Central Government.

Extract of Annual Return

In compliance with provisions of Sections 134(3)(a) and 92(3) of the Act read with Rule 12(1) of the Companies (Management and Administration) Rules, 2014, an extract of the Annual Return as on March 31, 2018, in prescribed Form No. MGT - 9 is given in **Annexure 'H'** to this Report.

Acknowledgements

Your Directors commend all employees of the Company for their continued dedication, commitment, hard work and significant contributions. They also wish to express their deep gratitude to various departments of the Central and State governments, banks, financial institutions, business associates, customers, distributors, suppliers, analysts, medical professionals and members for their whole-hearted support and cooperation.

For and on behalf of the Board of Directors

Manju D. Gupta
Chairman
(DIN: 00209461)

Mumbai, May 15, 2018