

# Board's Report

Dear Members,

Your Directors are pleased to present the 33<sup>rd</sup> Annual Report of your Company together with the audited accounts for the financial year ended 31 March 2020.

## FINANCIAL HIGHLIGHTS

Standalone Financials	₹ in Million	
	2019-20	2018-19
Revenue from operations	132,664.8	122,578.9
Profit Before Depreciation, Interest, Tax and Exceptional Items	26,857.5	24,092.9
Depreciation	4,704.8	4,130.3
Finance cost	955.8	1,309.2
Profit Before Tax	23,777.0	19,646.2
Provision for Tax	5,049.6	4,348.9
Net Profit After Tax	18,727.4	15,297.3
Other Comprehensive Income/ (Expense)	(125.5)	(14.1)
Total Comprehensive Income for the period	18,601.9	15,283.2

## DIVIDEND

Your Company has paid first interim dividend of 125% i.e. ₹1.25 per equity share of ₹1 and second interim dividend of 175% i.e. ₹1.75 per equity share of ₹1. The total dividend for the financial year 2019-20 comes to 300% i.e. ₹3.00 per equity share of ₹1 against 250% i.e. ₹2.50 per equity share of ₹1 paid in the previous year.

Pursuant to Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, top five hundred listed entities based on market capitalisation are required to formulate a Dividend Distribution Policy. The Board has approved and adopted the Dividend Distribution Policy and the same is available on your Company's website: <https://www.aurobindo.com/wp-content/uploads/2018/10/Dividend-Distribution-Policy.pdf>

## PERFORMANCE REVIEW

Your Company has carved a niche for itself in the global pharmaceutical space. Aurobindo is now the 7<sup>th</sup> largest generic company by sales globally and second largest listed Indian pharmaceutical company by revenues. In the US, your Company is the second largest generic company by Rx dispensed.

After a year of acquisitions, FY20 was a year of continuity, consistency and consolidation for your Company. It successfully and seamlessly integrated Apotex Inc.'s businesses in Europe and also consolidated branded injectable products acquired from Spectrum Pharmaceuticals Inc. During the year, through Auro Vaccines LLC, USA, a wholly owned step down subsidiary of Aurobindo Pharma Limited, India, your Company acquired valuable R&D assets from Profectus BioSciences Inc, USA, which is a clinical stage vaccine development company.

On a standalone basis, your Company's revenue registered a growth of 8.2% reaching ₹132,664.8 million in FY20, compared to ₹122,578.9 million in FY19. The Formulations business witnessed a growth of 14.2% to ₹100,253.4 million led by exports, which are up by 14.3% to ₹99,698.5 million. The API business declined by 6.9% to ₹32,242.1 million due to higher captive consumption. EBITDA for FY20 increased by 11.5% to ₹26,857.5 million vs. ₹24,092.9 million in FY19. Profit before Tax for the year at standalone level was increased by 21% to ₹23,777.0 million. Your Company's net profit (before OCI) increased by 22.4% to ₹18,727.4 million as against ₹15,297.3 million in FY19. The diluted Earnings Per Share stood at ₹31.96 compared to ₹26.11 in FY19.

On a consolidated basis, revenues for FY20 grew by 18.1% from ₹195,635.5 million in the previous year to ₹230,985.1 million. The healthy growth in revenues was driven by new product launches across markets and increased market share of existing products. The Formulations business registered a revenue growth of 23.9% and improved to ₹200,119.3 million from ₹161,570.3 million in the previous year. The Active Pharmaceutical Ingredients (APIs) business sales stood at ₹30,833.7 million down from ₹34,030.3 million in the corresponding previous period.

EBITDA margin was at 21.1% vis-à-vis 20.2% in FY19. EBITDA before forex and other income stood at ₹48,643.1 million, witnessing a 23.1% growth year-on-year. Your Company reported a Net Profit of ₹28,309.7 million, an increase of 19.7% over the corresponding previous period. The Diluted Earnings Per Share stood at ₹48.32 compared to ₹40.36 in FY19.

Your Company's strong performance for the year was driven by healthy growth across key geographies in the Formulations segment. Our Formulations sales increased by 23.9% to ₹200,119.3 million. FY20 is the first full year of consolidation of businesses acquired from Apotex Inc and Spectrum Pharmaceuticals. Excluding the sales from acquired businesses, your Company has witnessed a strong growth in the Formulations segment.

The US is the largest market for your Company and accounted for 49.7% of total revenue. The US business reported 27.2% growth at ₹114,835.4 million. It has a presence across segments such as oral solids, injectables, branded injectables, dietary supplements and over-the-counter (OTC) businesses. With the acquisition of branded injectables from Spectrum Pharmaceuticals, your Company's presence in injectables has significantly increased. The share of injectables (both branded and generic) has grown to 23.3% of US sales in FY20, up from 17.2% of US sales in FY19. The dependency on oral solids has reduced; the share of oral solids at 64.1% in FY20 is down from 69.2% in FY19.

The US business has maintained its growth momentum across business segments. New product launches coupled with an increase in the market share of existing products led to an improvement in the revenues. Your Company has launched 34 products in FY20. The Rx share in USA has increased to 8.5% for the 12 months ending April 2020 from 7.0% for the 12 months ending April 2019, as per IQVIA data.

Acrotech Biopharma successfully transitioned seven USFDA approved hematology-oncology products from Spectrum Pharmaceuticals. It also acquired a well-established and experienced branded commercial infrastructure to continue marketing these brands. The Company is focused on commercialization by strategically differentiating its key brands through various awareness and promotional initiatives.

Your Company continues to strengthen its pipeline for the global markets including US market. As on 31 March 2020, your Company filed 586 Abbreviated New Drug Applications (ANDAs) on a cumulative basis. Of the total count, 397 have received final approvals and 28 have got tentative approvals, including 8 ANDAs, which are tentatively approved under the US President's Emergency Plan for AIDS Relief (PEPFAR), while 161 ANDAs are currently under review.

Your Company registered a 19.4% growth in its Europe formulations business, as revenue touched ₹59,218.3 million in FY20 compared to the previous year's revenue of ₹49,601.7 million on account of an increased portfolio of offerings. Your Company reported healthy performance in Spain, the UK, Italy, the Netherlands and France. The integration of Apotex Inc.'s businesses with Aurobindo, has strengthened its presence in Europe. Your Company now operates in 11 countries and is present across multiple channels including pharmacy (Rx), hospital (Hx) and tender (Tx). Your Company's focus will remain on filing more products on a consistent basis, diversifying its existing product portfolio, reaching out to critical markets, and streamlining of sales, marketing and channels of operation.

Your Company's Formulations sales in Growth Markets including Brazil, Canada, Columbia and South Africa grew by 13.5% to ₹13,550.8 million as compared to ₹11,936.5 million in FY19. In Canada, your Company is the eighth largest generic company in terms of value for the 12 months ended March 2020 as per IQVIA data. During the year, your Company has launched 13 products and submitted dossier filings for 13 products.

The ARV Formulations business reported a growth of 28.7% with revenues of ₹12,514.8 million vis-à-vis ₹9,724.8 million, a year ago. The significant early mover advantage Aurobindo had in TLD (Tenofovir 300mg + Lamivudine 300mg + Dolutegravir 50mg tablet) single pill regimen along with rapid conversion of TLE to TLD in the institution segment has contributed towards this growth. South Africa being the single largest PLHIV market, has adopted the new TLD combination in its National Guideline this year as the first line, and began administering TLD therapy to both new and existing patients taking TEE (Emtricitabine based regimen). Aurobindo has secured a good percentage share in national ARV tender for both - TLD as well as for Dolutegravir single dose. It is expected to generate more sales in the coming two years. The number of patients on TLD is expected to move above 4 million, since the time national procurement for the Dolutegravir regimen began in Q4FY20.

We have been constantly reviewing and upgrading our compliance standards in all our processes and systems to

ensure that our products meet the expectations of customers and patient needs.

**OUTLOOK**

Aurobindo believes a diversified product basket helps to grow the business consistently and continuously. Your Company has identified complex and differentiated products in multiple therapeutic areas from where it will launch the next phase of growth. Aurobindo follows a strategy of filing for select, differentiated products and as the approvals are received, commercialisation leads to market expansion.

Your Company is determined to build a diverse and robust specialty products portfolio comprising oncology & hormonal products, biosimilars, depot injections, vaccines, topicals, transdermal patches, inhalers, nasals and complex peptide products. The recent acquisition of vaccine technologies will add more products and scale to the vaccine portfolio.

The US and Europe are the key geographies for your Company, which is committed to growing all its business segments. In the US, over 180 ANDAs are awaiting for final approval and annual sales as per IQVIA data is US\$ 80 billion as on 31 March 2020. Apart from this, over 350 ANDAs are under development, including the differentiated pipeline.

In the Europe, generic penetration continues to improve in countries like Italy, Spain, Portugal and France. Your Company will continue to expand its portfolio through launches of targeted Day 1 products, in the oncology, hormones, injectables and orals segments. Your Company has a pipeline of over 250 products under development. Going forward, Aurobindo will start supplying Eugia Pharma's products in Europe. Your Company will focus on driving topline growth and maintaining strong focus on improving profit margins.

Aurobindo ramped up its ARV capacities in tune with market uptake, thereby achieving a dominant market share in Dolutegravir segment. Majority of the countries are rapidly converting to TLD first-line regimen and this is expected to grow this market in the coming years. Overall, Aurobindo's strong presence in the global HIV space has been growing at a consistent pace and your Company is on track to exceed its objective of helping treat more patients across the globe.

In its API business, Aurobindo will continue to focus on complex products with varying volumes and continuous improvement in manufacturing processes. Your Company has consistently increased production volumes and expects to improve further in the coming years.

In R&D, your Company will maintain focus on difficult to manufacture, differentiated products, with possible low-competitive pressure. Filing momentum is in line with the strategy of moving towards complex/specialty products.

In financial performance, your Company will focus on improving EBITDA margin driven by operational excellence and scale.

Your Company intends to strengthen cash flow and consistently reduce debt.

**RESEARCH AND DEVELOPMENT (R&D)**

With research and development being a major focus area, Aurobindo has a committed and talented team comprising more than 1,600 scientists and experts, who work on developing a wide range of medications from generics to complex speciality products. Currently, Aurobindo has eight Research and Development (R&D) centres, of which five are in India and three are in the USA. During FY20, your Company invested 4.1% of its consolidated revenue or ₹9,580 million in research and development.

Aurobindo is developing several specialty products in the respiratory and dermatological therapeutic areas, including metered dose inhalers (MDIs), dry powder inhalers (DPIs), nasal sprays, topical lotions, creams, ointments and transdermal patches. Your Company's focus is on developing affordable generic medications and products that would be accessible to all strata of society. Given the increasingly high cost of healthcare worldwide, it is imperative that cost effective, high-quality generics as well as the branded generic products are made available to patients.

Your Company has identified six 505(b)(2) projects (which are orals, injectable and topicals products) for development. These products are developed in your Company's India and North Carolina R&D centres. Most of these products require pre-clinical safety apart from regular clinical studies and formulation development. APIs are being developed in-house wherever possible.

Your Company is also in the process of building manufacturing facilities for topical, transdermal and inhaler products in Hyderabad, India and Aurobindo Pharma Unit-II, North Carolina, USA. Besides this, your Company has built a development lab in its Research Centre-II, which is based at Hyderabad.

**ENVIRONMENT, HEALTH AND SAFETY (EHS)**

Your Company has always been committed towards environmental, health and safety measures. This positive attitude is driven not only by our dedicated EHS Team but also extends to our employees. Besides, it is understood by all of us that the responsibility and accountability for environment, health and safety rests with each individual.

Performing work safely and responsibly starts with our management systems and standards and continues with the expertise and diligence of our employees and associates worldwide. Each day, it is our integrity, attention to detail and concern for the health and safety of personnel and the environment in which we live that enables us to provide consistent superior performance, quality services, cost competitiveness and customer satisfaction.

Protecting our employees, the public and the environment is held as a core value. We take a firm stance that no business objective

will take priority over environment, health and safety and no task is so important or urgent that it cannot be completed safely.

**Environment**

Your Company strongly believes that compliance with environmental regulations is the most important responsibility for an existing business entity. We continuously monitor and regulate emissions as well as discharge of wastes. It is ensured that wastes get segregated at the very source of generation. Besides optimising utilisation of natural resources such as water and coal, we ensure effective and timely treatment, reuse or disposal of wastewater and wastes. We have been quick enough to embrace, and integrate new technologies for collection, storage, treatment and management of wastes. Database development on sustainability performance including environmental and resource utilisation has been initiated. We have initiated a process to increase export shipments by sea and effectively reduce our carbon footprint.

Inorganic solid and hazardous wastes are disposed off to secure landfills whereas organic solid and liquid wastes are disposed off to cement units for co-processing. Biomedical wastes are sent to common biomedical waste treatment and disposal facility (CBWTF) whereas recyclable wastes such as waste oils, e-waste and batteries are sold to authorised vendors or suppliers.

Using the Membrane Bio Reactor (MBR) technology introduced at one of the manufacturing facilities in the year FY19, we have been treating approximately 500 kilolitres per day of wastewater.

At the API manufacturing units, emission control and mitigation practices are scrupulously followed whereas corporate inspections are done on a fortnightly basis. Monitoring and review of all critical environmental management attributes are done daily at the site level as well as at the corporate level.

Greenbelt development across our manufacturing facilities is an ongoing activity. Continuous monitoring and maintenance activities resulted in more than 80% survival of the developed greenbelts. During FY20, we had planted around 11,400 trees. In-house composting of garden waste is also done in some units and the same is used for the greenbelt. Apart from this, we are also involved in state government initiatives for promoting green cover in schools and villages like 'Harithaharam' in Telangana and 'VanamManam' in Andhra Pradesh.

**Health**

Being an organisation that provides healthcare solutions to the entire world, we believe that it is our responsibility to care for the health and well-being of our employees. Not only do we abide by the mandatory rules and regulations but always strive to go beyond.

We are in collaboration with 'The Access to Medicine Foundation' and are a member of the 'AMR Industry Alliance'. Via this

alliance, we have continued our efforts towards aligning several pharmaceuticals, generic, biotech and diagnostic companies towards carrying out research work and curbing antimicrobial resistance.

During FY20, we took up several new initiatives which included setting standard requirements for occupational health monitoring, exceeding the minimum legal requirements, performing trend analysis of employee health data to improve predictability, etc.

**Safety**

Our fundamental belief is that the employees of Aurobindo Pharma shall be provided a safe and healthy workplace. To that end, we follow global safety guidelines across all our manufacturing units and offices.

As per our safety rules and policies, it is a mandatory requirement that all new projects, be it construction of our office buildings, manufacturing plants or distribution centres, get EHS clearance at the planning stage. Moreover, a review of these constructed assets is done to certify that laid standards have been adhered with.

Safety is a must in all our production processes. The inclusion of our safety guidelines in the Batch Production and Control Record (BPCR) ensures greater workplace safety and prevents the occurrence of any accident in the production process.

Several initiatives taken up during the year to enhance our Company's overall safety levels include enhancing fire fighting systems (sprinkler systems), fire detection systems, automatically activating extinguishing systems, etc. Employee awareness and training was given higher importance so that employees become aware of risk reduction measures and act accordingly. Software modelling was used to perform quantitative risk assessment for flammable solvent storage areas and to ensure adequate risk control.

We have initiated environmental management systems for effective environmental management and as a part of this, 14 units of the company are already certified for ISO 14001:2015, whereas the other units are awaiting ISO 14001:2015 certification which will be completed by the end of the year 2020 except for unit XVII and XVIII where commercial production is yet to begin. Aurobindo has been participating in the 'ECOVADIS Corporate Social Responsibility (CSR) rating system since 2017 and all our customers have access to this assessment score.

**Engagement in national and global initiatives on Antimicrobial Resistance (AMR)**

Aurobindo recognised that AMR is a threat and has taken proactive steps to ensure it is at the forefront of the fight against it. The Company collaborated with The Access to Medicine Foundation and participated in The Antimicrobial Resistance Benchmark 2018 and 2020. Aurobindo has been among the 9

generic medicine manufacturers out of 30 pharma companies that were selected for AMR Benchmark 2020 wherein the companies were evaluated based on R&D, Responsible Manufacturing and Appropriate Access & Stewardship.

During the year 2019, Aurobindo became a member of AMR Industry Alliance, a coalition of over 100 biotechnology, diagnostic, generics and research-based biopharmaceutical companies and trade associations across the world that was formed to drive and measure industry progresses to curb antimicrobial resistance. Aurobindo was one of the 7 generic medicine manufacturers out of 65 Alliance members who participated in the survey report 2020. The Alliance's metrics on combating AMR have been developed across four areas: Research and Science, Access, Appropriate Use, and Manufacturing that formed the basis of 2020 Progress Report published by the Alliance.

As a member of Bulk Drugs Manufacturers Association (India), Aurobindo is contributing to the research studies taken up by the Association on AMR. Aurobindo, as Member of BDMA (I) took participation in all technical interaction sessions/meetings organized by national level environmental regulatory agencies in their attempts to fix environmental standards with regard to antibiotics.

**AWARDS AND ACCOLADES**

- Indian Pharmaceutical Association (IPA), ACG Worldwide (ACG) & SciTech (SciTech Centre) jointly announced awards for the best innovations in the development of packaging of pharmaceuticals for the year 2018. Aurobindo Pharma Limited won the Best Innovative Packaging Award for solid dosage form.
- The Aurobindo Pharma Foundation has received a Gold Medal from the Hon'ble Governor of Andhra Pradesh & President of the Indian Red Cross Society A.P., for providing the Brachytherapy Unit for cancer treatment.
- UBM India, a multinational media company and global B2B event organiser has announced the INDIAPACK awards. Aurobindo Pharma Limited has been awarded INDIAPACK-2018 by UBM India under the following three categories, which is the highest in terms of number of awards nationwide in the industry:
  - Excellence in Packaging Design Shapes & Structures
  - Excellence in Sustainable Packaging
  - Excellence in Design - POS
- Aurobindo Pharma Ltd has bagged the coveted 14<sup>th</sup> National BML Munjal Award for 'Business Excellence through Learning & Development' in the Private Sector Manufacturing category from Bharat Ratna Pranab Mukherjee, Former President of India.
- Aurobindo Unit-III has bagged the Special Commendation Award in the Golden Peacock Environmental Management

Awards 2019 from the Institute of Directors (IOD). These awards are regarded as a benchmark of corporate excellence worldwide.

- Aurobindo has been awarded as Best Energy Efficient Organization under Large Scale Industry Category in CII's 4th edition of National Energy Efficiency Circle Competition. With more than 200 best case studies on energy efficiency from business, industry and institutions across India, Aurobindo got national recognition for outstanding contributions made in the area of energy efficiency at Unit-I.

### SUBSIDIARIES/JOINT VENTURES

As per the provisions of Section 129 of the Companies Act, 2013 read with the Companies (Accounts) Rules 2014, a separate statement containing the salient features of the financial statements of subsidiary companies/associate companies/joint ventures is detailed in Form AOC-1 and is in **Annexure-1** to this Report.

During the year, the following are the changes in the subsidiaries of the Company:

#### Ceased subsidiaries / JVs

Aurobindo Pharma USA LLC, USA, a wholly owned subsidiary of Aurobindo Pharma USA Inc. was inoperative hence, it was sold w.e.f. 15 November 2019.

#### New subsidiaries / JVs

Aurobindo NV/SA, Belgium, a wholly owned subsidiary of Agile Pharma B.V., has been incorporated w.e.f. 17 December 2019.

Longxiang Pharma Taizhou Co. Ltd, China, a joint venture under Helix Healthcare B.V. has been incorporated w.e.f. 28 October 2019.

Auro Packaging LLC, USA, a 100% subsidiary of Aurobindo Pharma USA Inc., has been incorporated w.e.f. 1 April 2019.

Luoxin Aurovitas Pharm (Chengdu) Co. Ltd, China, a joint venture of Helix Healthcare B.V., has been incorporated w.e.f. 25 March 2019.

Auroactive Pharma Private limited, India, a wholly owned subsidiary has been incorporated w.e.f. 9 January 2020.

### CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements have been prepared by the Company in accordance with the Indian Accounting Standards (Ind AS) 110 and 111 as specified in the Companies (Indian Accounting Standards) Rules, 2015 and as per the provisions of Companies Act, 2013. The Company has placed separately, the audited accounts of its subsidiaries on its website [www.aurobindo.com](http://www.aurobindo.com), in compliance with the provisions of Section 136 of the Companies Act, 2013. Audited financial statements of the Company's subsidiaries will be provided to the Members, on request.

### CODE FOR PREVENTION OF INSIDER TRADING

On 31 December 2018, Securities and Exchange Board of India amended the Prohibition of Insider Trading Regulations, 2015, prescribing various new requirements with effect from 1 April 2019. In line with the amendments, your Company has adopted an amended Code of Conduct to regulate, monitor and report trading by Designated Persons and their Immediate Relatives under the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015. This Code of Conduct also includes code of practices and procedures for fair disclosure of unpublished price sensitive information and has been made available on the Company's website at <https://www.aurobindo.com/wp-content/uploads/2019/04/Code-Fair-Disclosure-PIT-Feb2019.pdf>

### VIGIL MECHANISM

The Board of Directors has adopted the Whistle Blower Policy which is in compliance with Section 177(9) of the Companies Act, 2013 and Regulation 22 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. The Whistle Blower Policy aims to conduct the affairs in a fair and transparent manner by adopting the highest standards of professionalism, honesty, integrity and ethical behavior. All permanent employees and whole-time directors of the Company are covered under the Whistle Blower Policy.

A mechanism has been established for employees to report their concerns about unethical behavior, actual or suspected fraud or violation of Code of Conduct and Ethics and leak of price sensitive information under the Company's Code of Conduct formulated for regulating, monitoring and reporting by Insiders under SEBI (Prohibition of Insider Trading) Regulations, 2015, as amended from time to time. It also provides for adequate safeguards against the victimization of employees who avail of the mechanism and allows direct access to the Chairperson of the Audit Committee in exceptional cases. The Whistle Blower Policy is available on the Company's website <https://www.aurobindo.com/wp-content/uploads/2019/04/Whistle-Blower-Policy-APL-clean.pdf>

### PREVENTION AND PROHIBITION OF SEXUAL HARASSMENT

Your Company has a policy and framework for employees to report sexual harassment cases at workplace and the said process ensures complete anonymity and confidentiality of information. Your Company has constituted an Internal Complaints Committee in compliance with the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and the Rules there under. The Company has a policy on prevention and prohibition of sexual harassment at the workplace. The policy provides for protection against sexual harassment of women at the workplace and for the prevention and redressal of such complaints. During the year, the Company has not received any complaint. The Company has been conducting regular awareness programmes aimed at prevention of sexual harassment.

### MEETINGS OF THE BOARD

The Board and Committee meetings are prescheduled and a tentative calendar of the meetings is created in consultation with the Directors. However, in case of special and urgent business needs, approval is taken by passing resolutions through circulation. During the year under review, four Board Meetings and five Audit Committee Meetings were convened and held. The details of the meetings including composition of Audit Committee are provided in the Corporate Governance Report. During the year, all the recommendations of the Audit Committee were accepted by the Board.

### DETAILS OF DIRECTORS & KEY MANAGERIAL PERSONNEL

#### Key Managerial Personnel

Mr. K. Nithyananda Reddy, Whole-time Director and Vice Chairman, Mr. N. Govindarajan, Managing Director, Dr. M. Sivakumaran, Whole-time Director, Mr. M. Madan Mohan Reddy, Whole-time Director, Mr. P. Sarath Chandra Reddy, Whole-time Director, Mr. Santhanam Subramanian, Chief Financial Officer and Mr. B. Adi Reddy, Company Secretary are Key Managerial Personnel of the Company in accordance with the provisions of Section(s) 2(51), and 203 of the Companies Act, 2013 read with the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014. During the year, Mr. K.Ragunathan, Dr(Mrs) Avnit Bimal Singh and Mrs.Savita Mahajan were re-appointed as Independent Directors of the Company. Mr. P.Sarath Chandra Reddy was re-appointed as Whole-time Director of the Company during the year.

None of the directors of the Company are disqualified under the provisions of the Companies Act, 2013 ('Act') or under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. All Independent Directors have provided confirmations as contemplated under section 149(7) of the Act.

#### Appointments/Re-appointment

As per the provisions of the Companies Act, 2013, Mr. K. Nithyananda Reddy and Mr. M. Madan Mohan Reddy will retire as directors at the ensuing Annual General Meeting and being eligible, seek re-appointment. The Board recommends their re-appointment.

### DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Section 134(3)(c) of the Companies Act, 2013 your Directors confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- appropriate accounting policies have been selected and applied consistently. Judgement and estimates which are reasonable and prudent have been made so as to give a true and fair view of the state of affairs of your Company as at the end of the financial year and of the profit of your Company for the year;

- proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of your Company and for preventing and detecting fraud and other irregularities;
- the annual accounts have been prepared on a going concern basis;
- proper internal financial controls have been laid down to be followed by your Company and such internal financial controls are adequate and are operating effectively; and
- proper systems to ensure compliance with the provisions of all applicable laws have been devised, and such systems are adequate and are operating effectively.

### DECLARATION FROM INDEPENDENT DIRECTORS

The Independent Directors have submitted the declaration of independence stating that they meet the criteria of independence as provided in sub-section (6) of Section 149 of the Companies Act, 2013 as well as clause (b) of sub-regulation (1) of Regulation 16 of the Listing Regulations (including any statutory modification(s) or re-enactment(s) thereof for the time being in force). In terms of Regulation 25(8) of the Listing Regulations, the Independent Directors have confirmed that they are not aware of any circumstance or situation, which exist or may be reasonably anticipated, that could impair or impact their ability to discharge their duties.

### BOARD DIVERSITY

The Company recognizes and embraces the importance of a diverse board in its success. The Board has adopted the Board Diversity Policy which sets out the approach to diversity of the Board of Directors. The Board Diversity Policy is available on the Company's website: <https://www.aurobindo.com/wp-content/uploads/2018/10/Policy-on-Board-Diversity.pdf>

### BOARD EVALUATION

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 mandates that the Board shall monitor and review the Board evaluation framework. The Companies Act, 2013 states that a formal annual evaluation needs to be made by the Board of its own performance and that of its committees and individual directors. Schedule IV of the Companies Act, 2013 states that the performance evaluation of independent directors shall be done by the entire Board of Directors, excluding the director being evaluated.

The Annual Performance Evaluation was conducted for all Board Members, for the Board and its Committees for the financial year 2019-20. This evaluation was led by the Nomination and Remuneration / Compensation Committee of the Company. The Board evaluation framework has been designed in compliance with the requirements under the Companies Act, 2013 and the Listing Regulations and in accordance with the Guidance Note on Board Evaluation issued by SEBI in January 2017. The Board evaluation was conducted through questionnaire designed with qualitative parameters and feedback based on ratings.

Evaluation of Committees was based on criteria such as adequate independence of each Committee, frequency of meetings and time allocated for discussions at meetings, functioning of Board Committees and effectiveness of its advice/ recommendation to the Board, etc.

Evaluation of Directors was based on criteria such as participation and contribution in Board and Committee meetings, representation of shareholders interest and enhancing shareholders value, experience and expertise to provide feedback and guidance to top management on business strategy, governance, risk and understanding of the organization's strategy, etc.

### **POLICY ON DIRECTORS' APPOINTMENT AND REMUNERATION**

The policy of the Company on directors' appointment and remuneration, including criteria for determining qualifications, positive attributes, independence of a director and other matters are adopted as per the provisions of the Companies Act, 2013. The remuneration paid to the Directors is as per the terms laid out in the nomination and remuneration policy of the Company. The nomination and remuneration policy as adopted by the Board is placed on the Company's website: <https://www.aurobindo.com/wp-content/uploads/2018/10/Nomination-and-Remuneration-Policy.pdf>

### **TRANSFER TO RESERVES**

Your Company has not transferred any amount to reserves during the year under review.

### **LOANS, GUARANTEES AND INVESTMENTS**

Loans, guarantees and investments covered under Section 186 of the Companies Act, 2013 form part of the Notes to the financial statements provided in this Annual Report.

### **CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES**

All transactions entered with Related Parties for the year under review were on arm's length basis and in the ordinary course of business. All related party transactions are mentioned in the Notes to the Financial Statements. The Company has developed a framework through Standard Operating Procedures for the purpose of identification and monitoring of such Related Party Transactions. A statement giving details of all Related Party Transactions are placed before the Audit Committee and the Board for review and approval. The policy on Related Party Transactions as approved by the Board of Directors has been uploaded on the website of the Company <https://www.aurobindo.com/wp-content/uploads/2018/10/Related-Party-Transaction-Policy.pdf>

The particulars of contracts or arrangements with related parties referred to in sub-section (1) of Section 188 of the Companies Act, 2013 is prepared in Form No. AOC-2 pursuant to clause (h) of subsection (3) of Section 134 of the Act and Rule 8(2) of the Companies (Accounts) Rules, 2014 and is in **Annexure-2** to this Report.

### **EXTRACT OF ANNUAL RETURN**

As required under Section 134 (3) (a) and Section 92(3) of the Companies Act, 2013 read with Rule 12(1) of the Companies (Management and Administration) Rules, 2014, the extract of Annual Return prepared in Form MGT-9 is in **Annexure-3** to this report. The Annual Return of the Company is also available on the Company's website: [www.aurobindo.com](http://www.aurobindo.com)

### **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS & OUTGO**

Information with respect to conservation of energy, technology absorption, foreign exchange earnings & outgo pursuant to Section 134(3)(m) of the Act read with Companies (Accounts) Rules, 2014 is in **Annexure-4** to this Report.

### **RISK MANAGEMENT COMMITTEE**

Risk Management Committee of the Company consists of the following Directors viz. Mr. M. Sitarama Murty, Mr. N. Govindarajan and Mr. P. Sarath Chandra Reddy. Mr. M. Sitarama Murty is the Chairman of the Committee. The Company has established a separate department to monitor the enterprise risk and for its management. The Committee had formulated a risk management policy for dealing with different kinds of risks which the Company faces in its day-to-day operations. Risk management policy of the Company outlines different kinds of risks and risk mitigating measures to be adopted by the Board. Risk is an integral part of the Company's business, and sound risk management is critical to the success of the organization. The Company has adequate internal financial control systems and procedures to combat the risk. The risk management procedure is reviewed by the Audit Committee and Board of Directors on regular basis at the time of review of quarterly financial results of the Company. A report on the risks and their management is enclosed as a separate section forming part of this report.

### **AUDITORS & AUDITORS' REPORT**

The statutory auditors' report is annexed to this report. The notes on financial statements referred to in the Auditors' Report are self explanatory and do not call for any further comments. There are no specifications, reservations, adverse remarks on disclosure by the statutory auditors in their report. They have not reported any incident of fraud to the Audit Committee of the Company during the year under review.

Pursuant to Section 139 (2) of the Companies Act, 2013, read with Companies (Audit and Auditors) Rules, 2014, the Company at its 30th Annual General Meeting (AGM) held on 31 August 2017, had appointed M/s. B S R & Associates LLP, Chartered Accountants as Statutory Auditors for a period of 5 years i.e. up to the conclusion of the 35th AGM to be held in the year 2022. Further, as per Companies (Amendment) Act, 2017 effective from 7 May 2018, the provisions relating to ratification of the appointment of Statutory Auditors at every AGM are not required to be followed.

**INTERNAL AUDITORS**

Ernst & Young LLP are the internal auditors of the Company and to maintain its objectivity and independence, the Internal Auditors report to the Chairman of the Audit Committee. The scope and authority of the Internal Audit function is clearly defined by the Audit Committee of the Board. The Internal Auditors monitor and evaluate the efficacy and adequacy of internal control system of the Company, its compliance with applicable laws/regulations, accounting procedures and policies. Based on the reports of the Internal Auditors, corrective actions were undertaken and thereby strengthened the controls. Significant audit observations and action plans were presented to the Audit Committee of the Board on quarterly basis.

**COST AUDIT**

Pursuant to Section 148 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 and the Companies (Cost Records and Audit) Rules, 2014, the Company is maintaining the cost records as its business is covered under the regulated sector viz. drugs and pharmaceuticals. Audit of the Company's cost records is not applicable since the Company's revenues from exports, in foreign exchange, exceed 75% of its total revenues.

**INTERNAL FINANCIAL CONTROLS**

The internal financial controls (IFC) framework institutionalized in Aurobindo has been evaluated in-depth for its adequacy and operating effectiveness, wherein the Company has covered financial reporting controls, operational controls, compliance related controls and also Information Technology (IT) controls, comprising IT general controls (ITGC) and application level controls. The ITGC would include controls over IT environment, computer operations, access to programs and data, program development and program changes. The application controls would include transaction processing controls in ERP Oracle system which supports accurate data input, data processing and data output, workflows, reviews and approvals as per the defined authorization levels.

In order to further strengthen the existing IFC framework and to support the growing business, the Company has redefined all the process level controls at activity level which has brought in more clarity and transparency in day-to-day processing of transactions and in addressing any related risks. All the controls so redefined & identified have been properly documented and tested with the help of an independent auditor to ensure their adequacy and effectiveness.

The internal auditors conduct 'Process & control review' on a quarterly basis as per the defined scope and submit the audit findings along with management comments and action taken reports to Audit Committee for its review.

**The IFC framework at Aurobindo ensures the following:**

- Establishment of policies & procedures, assignment of responsibility, delegation of authority, segregation of duties to provide a basis for accountability and controls;

- Physical existence and ownership of assets at a specified date;
- Enabling proactive anti-fraud controls and a risk management framework to mitigate fraud risks to the Company;
- Recording of all transactions occurred during a specific period. Accounting of assets, liability, and revenue and expense components at appropriate amounts;
- Preparation of financial information as per the timelines defined by the relevant authorities.

These controls cover the policies and procedures adopted by the Company for ensuring the orderly and efficient conduct of its business including adherence to the Company's policies, safeguarding of its assets of the Company, prevention and detection of its frauds and errors, accuracy and completeness of accounting records and timely preparation of reliable financial information. The Company has an internal control system, commensurate with the size, scale and complexity of its operation.

**SECRETARIAL AUDIT REPORT**

Pursuant to the provisions of Section 204 of the Companies Act, 2013 and Rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Company has appointed Mr. A. Mohan Rami Reddy, a Company Secretary in Practice to undertake the secretarial audit of the Company for the financial year 2019-20. The Secretarial Audit Report issued in form MR-3 is in **Annexure-5** to this Report.

There are no qualifications, reservations or adverse remarks in the Secretarial Audit Report. Also, pursuant to Regulation 24A of the SEBI (Listing Regulations), 2015, the Company has obtained Annual Secretarial Compliance Report from a Practicing Company Secretary and submitted the same to stock exchanges where the shares of the Company are listed.

**CORPORATE SOCIAL RESPONSIBILITY**

In compliance with Section 135 of the CA 2013 read with the Companies (Corporate Social Responsibility Policy) Rules 2014, the Company has established the Corporate Social Responsibility Committee (CSR Committee). Your Company is striving to help create a healthy, improved life for people in its neighbourhood. Broadly, the initiatives are to execute on the stated CSR policy of 'give back to the society' and make an impact on the lives of people. The activities undertaken during 2019-20 can be summarized under the following heads:

- Promoting education;
- Supporting preventive health care;
- Eradicating hunger, poverty & malnutrition;
- Making available safe drinking water;
- Encouraging environment sustainability;
- Sustaining ecological balance & conservation of natural resources;

- Developing rural sports; and
- Setting up old age homes.

A detailed account of the CSR activities forms part of the annual report and placed on the Company's website at: <https://www.aurobindo.com/sustainability/>. Report on Corporate Social Responsibility as per Rule 8 of the Companies (Corporate Social Responsibility Policy) Rules, 2014 is in **Annexure-6** to this Report.

**PARTICULARS OF EMPLOYEES**

The statement of particulars of appointment and remuneration of managerial personnel as required under Section 197(12) of the Companies Act, 2013 read with Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is in **Annexure-7** to this Report. The statement containing particulars of employees pursuant to Section 197(12) of the Companies Act, 2013 read with Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is open for inspection at the Registered Office of the Company during business hours on all working days of the Company up to the date of the ensuing Annual General Meeting. Any shareholder interested in obtaining such details may write to the Company Secretary of the Company.

**Affirmation that the remuneration is as per the remuneration policy of the Company**

In compliance with the provisions of the Companies Act, 2013 and SEBI Listing Regulations, the Board, on the recommendation of the Nomination and Remuneration/Compensation Committee approved the Policy for Selection, Appointment of Directors, KMPs and Senior Management persons. The said Policy provides a framework to ensure that suitable and efficient succession plans are in place for appointment of Directors on the Board and other management members. The Policy also provides for selection and remuneration criteria for appointment of Directors and senior management persons.

The Company affirms that the remuneration is as per the remuneration policy of the Company.

**INSURANCE**

All properties and insurable interests of the Company including building, plant and machinery and stocks have been fully insured. The Company has also taken D&O Insurance Policy covering Company's Directors and Officers.

**MATERIAL CHANGES AND COMMITMENTS**

There are no material changes and commitments in the business operations of the Company from the financial year ended 31 March 2020 to the date of signing of the Board's Report.

**CORPORATE GOVERNANCE**

A separate section on Corporate Governance standards followed by your Company, as stipulated under Schedule V (C)

of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is enclosed as a separate section forming part of this report. The certificate of the Practicing Company Secretary, Mr. S. Chidambaram with regard to compliance of conditions of corporate governance as stipulated under Schedule V(E) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is annexed to the Corporate Governance Report.

**MANAGEMENT DISCUSSION AND ANALYSIS**

Management Discussion and Analysis Report for the year under review as stipulated under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is presented in a separate section forming part of this report.

**DEPOSITS**

Your Company has not accepted any deposits from the public within the purview of Chapter V of the Companies Act, 2013.

**INDUSTRIAL RELATIONS**

Industrial relations at all units of the Company have been harmonious and cordial. The employees are motivated and have shown initiative in improving the Company's performance even during the prevalence of COVID-19 pandemic challenges.

**TRANSFER OF UNPAID AND UNCLAIMED AMOUNT TO IEPF**

The dividends that remained unpaid/unclaimed for a period of seven years, have been transferred on due dates by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government. Section 124 of the Companies Act, 2013 read with the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 ('the Rules') mandates that companies shall apart from transfer of dividend that has remained unclaimed for a period of seven years from the unpaid dividend account to the Investor Education and Protection Fund (IEPF), also transfer the corresponding shares with respect to the dividend, which has not been paid or claimed for seven consecutive years or more to IEPF.

Accordingly, the dividends that remain unclaimed for seven years and also the corresponding shares have been transferred to IEPF account on due dates. The details of amount of unclaimed unpaid dividend and corresponding shares transferred to IEPF during the financial year 2019-20 have been provided in the AGM Notice.

**SHARE CAPITAL**

During the financial year under review, there has been no change in the Authorised Share Capital of the Company. However, the paid-up equity share capital of the Company increased by ₹23,000 during the year consequent to the allotment of 23,000 equity shares of ₹1 each on exercise of stock options under the Employee Stock Option Plan-2006 (ESOP 2006) of the Company. The paid-up share capital of the Company as on

31 March 2020 was ₹585,938,609 divided into 585,938,609 equity shares of ₹1 each. The Company has not issued any debentures, bonds or any non-convertible securities during the financial year under review.

**EMPLOYEE STOCK OPTION SCHEME**

The Members at the Annual General Meeting of the Company held on 18 September 2006 approved formulation of Employee Stock Option Scheme - 2006 (ESOP 2006) for the eligible employees and Directors of the Company and its subsidiaries. Details of the stock options as on 31 March 2020 are provided on the Company’s website: <https://www.aurobindo.com/about-us/corporate-governance/governance-policies/>. The details of the employee stock options also form part of the notes to accounts of the financial statements in this Annual Report.

**BUSINESS RESPONSIBILITY REPORT**

A detailed Business Responsibility Report in terms of the provisions of Regulation 34 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 is available as a separate section in this Annual Report.

**OTHER DISCLOSURES**

There were no significant material orders passed by the Regulators or Courts or Tribunals that would impact the going concern status of the Company and its operations in future.

The Company has complied with Secretarial Standards issued by the Institute of Company Secretaries of India.

**Acquisitions / Disinvestment/ demerger/merger**

Acquisition of Certain R&D Assets from Profectus

- The Company during the year through Auro Vaccines LLC, 100% subsidiary of Aurobindo Pharma USA Inc., USA, which in turn is 100% subsidiary of the Company, acquired certain R&D assets from ‘Profectus BioSciences Inc’, USA, a clinical-stage vaccine development company in the design and development of preventive and therapeutic vaccines for an upfront cash consideration US\$11.29 million with potential earn outs on achieving certain milestones. This acquisition provided access to Proprietary & Innovative technology platforms for Prophylactic use & Therapeutic use along with Global R&D center to develop newer vaccines from basic discovery research into FDA-approved product.

**Mutual termination of acquisition of certain assets from Sandoz**

- During April 2020, the Company has mutually agreed with Sandoz and terminated the definitive agreement entered into for acquisition of commercial operations and three manufacturing facilities in USA from Sandoz Inc., USA, a Novartis Division since approvals from the U.S. Federal Trade Commission for the transaction was not obtained within anticipated timelines.

**Merger Scheme**

- During the year, the Board of Directors of the Company at its meeting held on 28 May 2019 has approved the Scheme of Amalgamation for Merger of its wholly owned subsidiaries viz. APL Healthcare Limited, APL Research Centre Limited, Aurozymes Limited, Curepro Parenterals Limited, Hyacinths Pharma Private Limited and Silicon Life Sciences Private Limited (a stepdown wholly owned subsidiary) with the Company. Accordingly, the Company has made application on 7 August 2019 with Hon’ble National Company Law Tribunal, at Hyderabad (NCLT). Pursuant to the orders dated 30 September 2019, the required approvals of the Shareholders and unsecured creditors were obtained at the meetings held on 30 November 2019.
- Subsequently, a joint petition was filed with NCLT on 9 December 2019 which has been admitted. The matter was listed for final hearing on 28 February 2020 and adjourned to 23 March 2020. Due to COVID-19 lockdown restrictions, the matter of sanction of the Scheme is yet to reach the bench of Hon’ble NCLT.

The outbreak of Coronavirus (COVID-19) pandemic globally and in India is causing significant disturbance and slowdown of economic activity in many countries. Suitable measures have been taken to derisk the impact of COVID-19 and lockdowns on the operations of the Company. Your Company being a pharma company, was permitted to operate normally and during the lockdown periods, Company’s operations were not majorly impacted.

**CREDIT RATING**

The Company has obtained the Credit ratings from India Ratings & Research Private Limited and it has assigned IND AA+/ RWE / IND A1+ / RWE on Rating Watch Evolving for Company’s fund-based working capital facilities and IND A1+ / RWE on Rating Watch Evolving for Company’s non-fund-based working capital limits vide their letter dated 23 October 2019.

**ACKNOWLEDGEMENTS**

Your Directors are grateful for the invaluable contribution made by the employees and are encouraged by the support of the customers, business associates, banks and government agencies. The Directors deeply appreciate their faith in the Company and remain thankful to them. The Board shall always strive to meet the expectations of all the stakeholders.

For, and on behalf of the Board,

Place: Hyderabad  
Date: 3 June 2020

K. Raguathan  
Chairman  
DIN: 00523576