Alembic
Touching Lives over 100 years

ANNUAL REPORT 2008-09

Board of Directors

Mr. Chirayu R. Amin
Chairman & Managing Director

Mrs. Malika C. Amin
Whole-time Director

Dr. Babubhai R. Patel

Mr. Pranav N. Parikh

Mr. K.G. Ramanathan

Mr. Paresh Saraiya

Mr. Rajkumar Baheti
Director, President -
Finance & Company Secretary

Mr. Pranav Amin
Director &
Chief Business Development Officer

Statutory Auditors

K.S. Aiyar & Co.
Chartered Accountants
Laxmi Estate No. F - 07/08
Shakti Mills Lane
Off Dr. E. Moses Road
Mahalaxmi, Mumbai - 400 011

Bankers

ABN-AMRO Bank N.V.
AXIS Bank Limited
Bank of Baroda
HDFC Bank Limited
IDBI Bank Limited
Standard Chartered Bank
State Bank of India

Regd. Office

Alembic Road, Vadodara - 390 003
Tel: (0265) 2280550, 2280880
Fax: (0265) 2282506
Email: alembic@alembic.co.in

Manufacturing Facilities

Alembic Road, Vadodara - 390 003

Panelav, Tal. Halol,
Dist. Panchmahal - 389 350. Gujarat

Plot No. 21, 22, EPIP - Phase I
Jharmajri, Baddi, Tehsil - Nalagarh
Dist. Solan, Himachal Pradesh

Village Karakhadi, Taluka Padra
District Vadodara

Registrar & Transfer Agents

Link Intime India Private Limited
1st Floor, 308, Jaldhara Complex,
Opp. Manisha Society,
Off Old Padra Road, Vasna Road,
Vadodara - 390 007.
Tel.: (0265) 2250241, 3249857
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I N D E X

REFLECTIONS

CHAIRMAN'S MESSAGE

Dear Shareholders,

The financial storm that swept across one side of our world impacted businesses across the globe. The pharmaceutical sector, though a relative out-performer in comparison to the overall economy, saw buoyant forecasts of global pharma sales being moderated. Growth of the Indian pharma market too was a shade rationalised.

It was also a checkered year for Alembic. While some of the strategies adopted and paths charted in previous years started yielding handsome results, others needed course correction. An impressive 44% growth in our International Business was dampened by a 7.3% de-growth in our domestic formulations business.

We recorded a total of Rs. 1,133.7 Crores in revenues, a 10.4% growth over previous year's revenue of Rs. 1,027 Crores. A result we are not too delighted about, but are aware that it is a short term consequence for the long term benefit that will accrue from the restructuring exercise undertaken in our domestic formulations business.

Also responsible for this poor performance were uncharacteristic forex losses due to the unprecedented international currency imbalances which manifested in the aftermath of the global financial crisis. Forex losses were a bane of many an Indian company and Alembic too was saddled with its fair share.

A strong proponent of transparency and good corporate governance, Alembic decided to adhere to fair value accounting and report on a mark-to-market basis even though the National Advisory Committee on Accounting Standard (NACAS), postponed the implementation of Accounting Standard 11 (AS 11) to 2011 allowing organisations to report as per historic costs.

We have fully provided for mark-to-market exchange losses on long term foreign currency loans and on forward sale of US Dollars. We have also made provisions for diminution in investment to the tune of Rs. 7.52 Crores with respect to a US company namely Xechem Corporation.

The forex losses and the initial negative impact of restructuring are both extraneous events and we at Alembic have implemented corrective action on both fronts to keep them such.

In the coming fiscal 2009-2010 the benefits of the restructuring will begin to kick in. We are on course to capitalise on the significant opportunity that exists for our newly focused product portfolio in the domestic formulations market, drive more costs out of the business and secure sustained profitability.

New products provide additional momentum to growth and during this fiscal Alembic launched 34 new products across various therapeutic segments.

Acute therapy products market contributes over 75% to the Indian pharma market by revenue. However there has been a perceptible increase in revenues from the chronic ailments segment and it is growing at almost double the rate of the acute segment. Amongst the largest therapeutic segments, anti-diabetic and CV drugs have demonstrated the most aggressive growth. The 24 lifestyle therapeutic brands which we included last year in the cardiovascular, diabetological and gynaecological segments have handsomely enhanced their contributions to the total sales. Diabetology, cardiology and gynaecology chalked up a 64%, 43% and 48% growth in percentage contribution to this revenue stream, respectively. Chronic therapy will continue to be a key growth segment for Alembic's domestic formulations business in the coming years.

Our International Business posted significant gains in every market in which we participate. Powered by our collaborative approach, sales in regulated markets escalated 71%. Partnerships with international generics players provided us deeper access to markets and helped sharpen our competitive position in regulated markets. As regulated markets look to increase generics usage in their healthcare system as a means to counter massive healthcare budget deficits, Alembic is advantageously poised to grow its footprint in these markets.

R&D is where we seed and nurture new growth platforms and this year too we continued to invest in it.

Alembic is fast evolving towards a business model that is focused on deep-rooting our domestic presence and simultaneously leveraging high-value mature regulated markets along with high growth emerging markets.

Our record of delivering consistent results to our shareholders for over a century speaks of our ability to adapt, execute and optimise the many opportunities that our business mix provides.

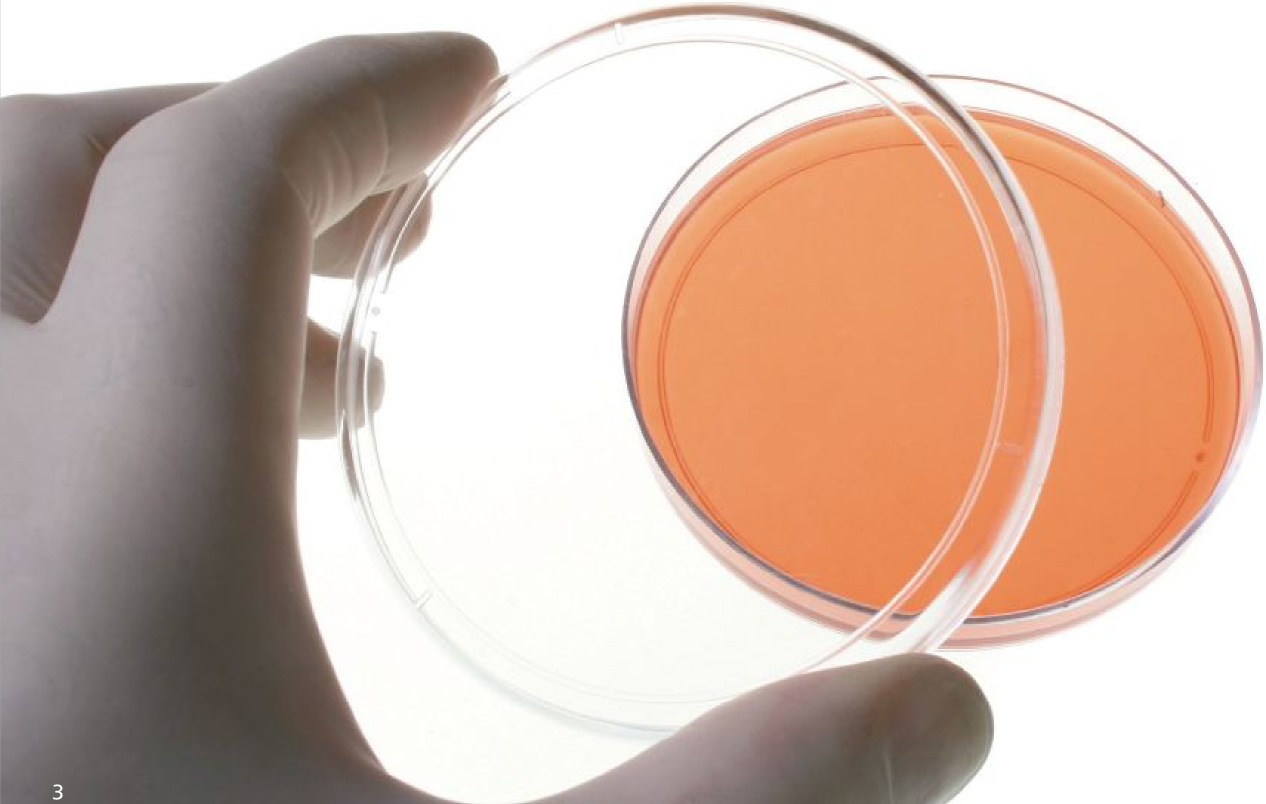
Alembic today is a well balanced, tightly managed, globally competitive organisation and will continue to profitably serve all stakeholders including patients, healthcare professionals, employees, business associates and shareholders.

Yours Sincerely,

Chirayu R. Amin

Vadodara: 8th May, 2009

I N T R O S P E C T I O N



While the previous fiscal was characterised by significant growth, the current year saw the Company undertake a strategic restructuring exercise. This was primarily aimed to streamline our products into tighter well-focussed segments and thereby sharpen the effectiveness of the sales force.

But there has been a hiatus between goals and outcomes. The execution was not as smooth as envisaged. The domestic formulations business de grew by 7.3%. Profitability was impacted due to the cost of restructuring and compounded by low sales. While we recruited aggressively to man our restructured divisions, we faced high level of attrition thereby increasing the cost of net incremental recruitment at field.

We also realised that we had higher inventory in the trade pipeline than what could be absorbed in the normal course. We reiterated stringent discipline in the distribution practices and by the end of the year, almost completed the correction in the trade pipeline.

In its hundred years of business history Alembic has successfully navigated many such blips to emerge stronger and more resilient.

Back On Course

Our vision remains focused to achieve long-term sustainable growth. The restructuring will ensure that product potential is fully realised and products of merit are not overlooked or under-resourced. It facilitates effective portfolio management and is geared to refine portfolio execution and thereby enhance revenue generation in the future notwithstanding lower sales in the interim.

The domestic formulations business now has a more streamlined operating structure. It has been reorganised into different groups and comprises of 15 marketing divisions. An enhancement in the field force strength from 1,950 to 2,700 and the ERP-integration of the sales and distribution process will augment the effectiveness of the restructuring.

This transformational exercise has been designed to deliver on three counts – sustained business gains, boost operational efficiencies and strengthen customer focus. The key benefits will include:

- **Rapid increase in market share**
- **Robust secondary sales**
- **Intensified customer coverage**
- **Focused customer centric activities**
- **Enhanced frequency of customer / doctor meetings**
- **Effective monitoring of brand marketing programs**
- **Day-to-day focus on conversion and consolidation targets**

Future Ready

In the last couple of years, Alembic has undertaken two strategic decisions – Product Portfolio Restructuring and People Portfolio Restructuring, to be geared to harness the large growth opportunities being formulated due to the changing socio-economic environment of India.

Galloping urbanisation of India has altered lifestyles and led to a rise in related diseases. By 2020, these diseases are likely to be responsible for nearly 50% of drug sales in India. Thus, the chronic lifestyle diseases market offers considerable growth potential.

The Product Portfolio Restructuring involved our inorganic growth in the lifestyle therapeutic segment wherein during 2006-07 we acquired the entire domestic non-oncology formulation business of Dabur Pharma Ltd. comprising of 24 active brands.

The contribution of chronic therapies to our total domestic formulations sales has been steadily improving.

Contributions by Therapeutic Segments

(Rs. in Lacs)

Therapeutic Segment	Value 2008-09	% Contribution	Value 2006-07*	% Contribution
Anti-Infectives	19,579	46.8	23,733	64.3
Respiratory	5,043	12.1	4,693	12.7
Gynaecologicals	4,844	11.6	1,577	4.3
Gastroenterology	3,671	8.8	2,464	6.7
Cardiology	2,785	6.7	214	0.6
Orthopaedics	1,898	4.5	1,919	5.2
Others	1,133	2.7	884	2.4
Diabetology	1,117	2.7	209	0.6
Nutritional	1,064	2.5	1,203	3.3
Critical Care	458	1.1	-	-
Anti BPH	202	0.5	-	-
Focussed Business - Total	**41,797**	**100.0**	**36,900**	**100.0**

** Pre acquisition business*

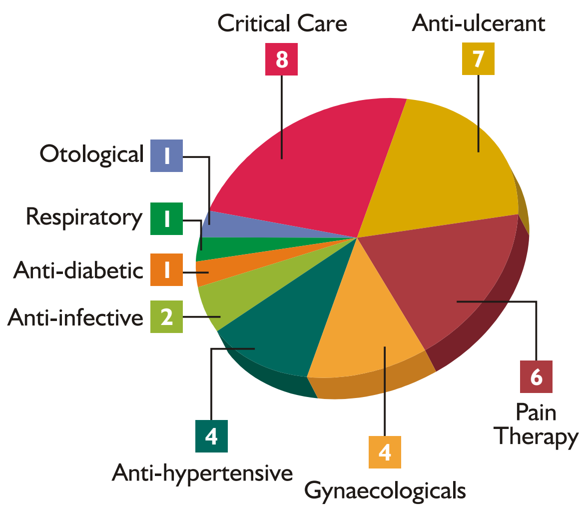
Growth Ignitions

New products are one of the major drivers of growth and their market performance a vital indicator of the organisation's future performance. We at Alembic continue to build on our distinguished record of introducing 'performing' products across key therapeutic segments.

This fiscal Alembic infused the market with the release of 34 new products, which injected new vigour into this revenue stream as they contributed 3.54% of the total domestic branded formulations sales. The 25 new products which were launched in the previous year contributed 6.34% to the total domestic branded formulations sales this year.

Spanning a period of three years, the contribution of new products to the total domestic branded formulations sales has been 8.6%.

Number of products introduced in each therapeutic category in FY 08-09



Brand Domination

As brand building continued so did the returns from brand building. We saw consistent performers reaffirming their position and new entrants rub shoulders with the top brands in India.

Azithral consolidated its No. I position in its category and recorded a 30% growth. It also catapulted 12 places from its last year rank of 39 to become the 27th top selling brand in the country.* Strox, with MAT sales of Rs. 19.3 Crores, made its debut in the top "300" product list of ORG, taking our total tally of products in this list to six. Strox in its first year after acquisition became fourth largest Ciprofloxacin brand.

** Source: ORG (MAT), March '09.*

Our Top 10 Brands

1	Azithral	No.1 brand in its category	27 in ORG Top 300	Value: 77.28 cr	Market Share: 27.7%
2	Althrocin	No.1 brand in its category	31 in ORG Top 300	Value: 71.57 cr	Market Share: 79.8%
3	Roxid	India's largest prescribed antibiotic	59 in ORG Top 300	Value: 52.93 cr	Market Share: 71.8%
4	Wikoryl	Third Largest Cold Brand	195 in ORG Top 300	Value: 26.13 cr	Market Share: 7.9%
5	Rekool			Value: 24.12 cr	Market Share: 6.6%
6	Ulgel			Value: 20.47 cr	Market Share: 7.2%
7	Strox		289 in ORG Top 300	Value: 19.29 cr	Market Share: 6.7%
8	Zeet		290 in ORG Top 300	Value: 19.28 cr	Market Share: 1.7%
9	Sharkoferrol			Value: 16.35 cr	Market Share: 57.8%
10	New Livfit			Value: 10.57 cr	Market Share: 4.1%

(Source: ORG, March '09)

Brands Outpacing the Market

Brand	Brand Growth (%)	Market Growth (%)
Megaclav	222	33
Strox	111	0
Sharkoferrol	31	11
Azithral	30	19
New Livfit	29	13
Cycloset	22	21
Zeet	11	6

Nine of our brands outpaced the market growth rate

(Source: ORG, March '09)

Therapeutic Category Performance

Therapeutic Segment	Rank	Market Share (%)
Macrolides	1	37.0
Respiratory	4	4.9
Anti-Infectives	7	4.9
Gynaecologicals	16	1.7
Gastroenterology	22	1.6
Diabetology	25	1.0
Pain	25	1.2
Cardiology	26	0.9

(Source: ORG, March '09)

Prescription Penetration

Alembic with a prescription share of 1.6% ranks as the 14th most prescribed company by Indian doctors. The expansion of prescriber base has led to a steady progress in market share in ORG during the year, which increased from 1.72% in April to 1.87% in March 2009.

The highest growth in prescription of 40% was recorded amongst Gastroenterologists. Closely followed by a 30% growth from Orthopaedic Surgeons and a 21% growth in prescriptions from Consulting Physicians. Chest Physicians and ENT Specialists too demonstrated a growing disposition towards Alembic products and prescriptions in these two categories chalked up a 5% and 2% growth respectively.