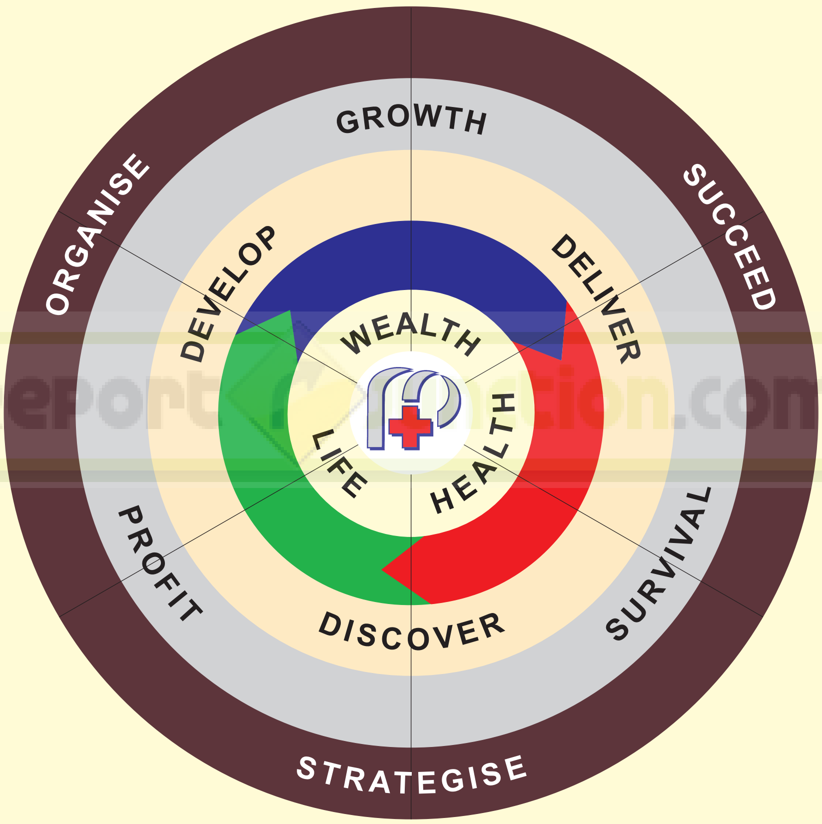
Annual Report
2000-2001



Scaling up the value chain

AUROBINDO
PHARMA LTD.

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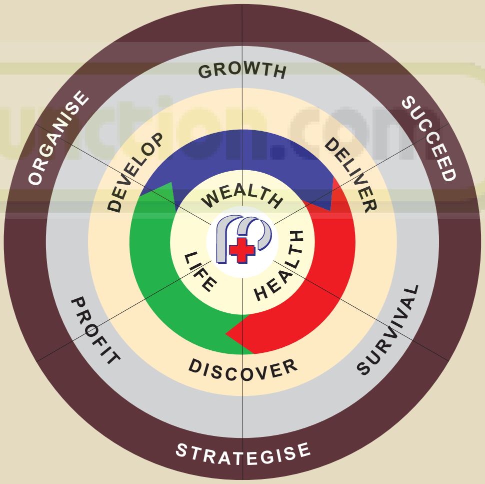


THE COVER

The business of business is not just creation of wealth. There are simultaneous societal responsibilities. For a pharmaceutical company, it certainly is an obligation to help create a good life. Improve on health. But these can happen if the company is focused on its strategies, organises itself and successfully implements its objectives. Aurobindo is on this upward thrust.

Aurobindo has worked out its plan. The process is synchronised as well as simultaneous. The Company is working to ensure not just survival and profit but relentless growth. Driven as it is, the Company is fast becoming a research lead knowledge company that will discover, develop and deliver results.

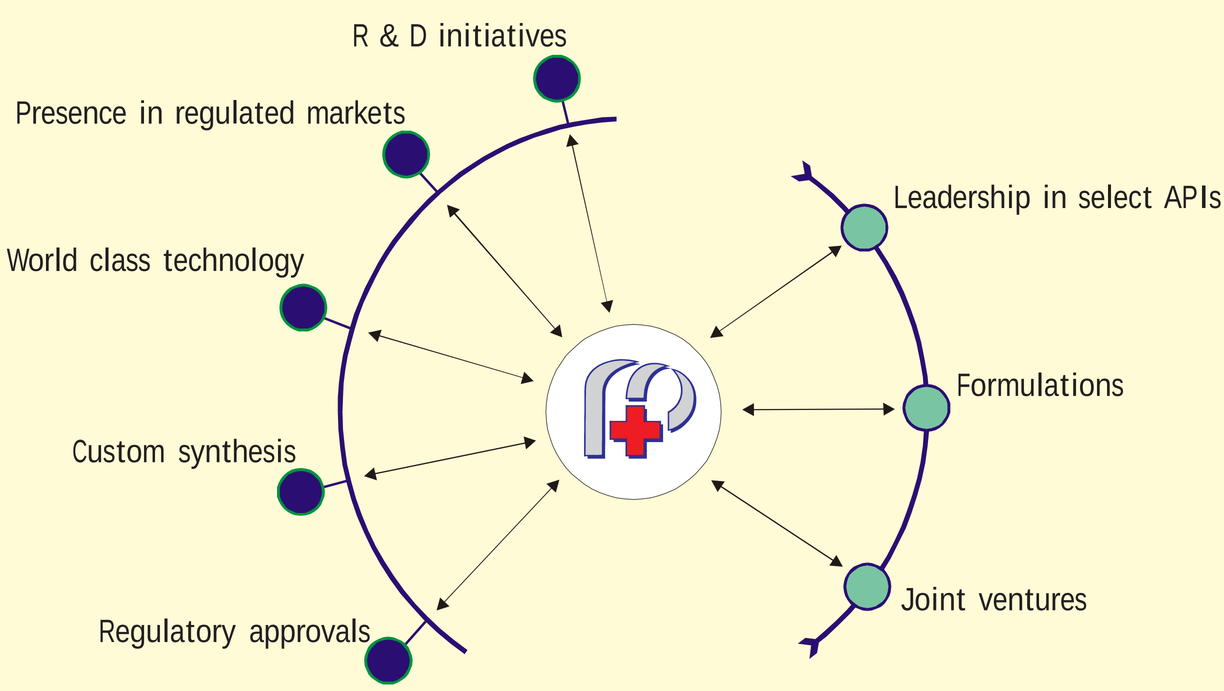
The concentrics is an attempt to map the organisation's approach to scale up the value chain.

When one is heading to the peak, climbing relentlessly, having left the base camp many miles both in distance and time, the climber often tries to catch breath, draw second wind, take stock and make plans to go for higher peaks. This is a precious time that helps make the next assault. Rejuvenated, the climber does better.

The climb is on at Aurobindo. The Company is consolidating its resources and planning its next peak. Presently, it is drawing on its underlying strengths, marshalling its resources, in fact creating some new, and getting ready to scale up its level of operations. The Company is improving its business model, while remaining focused on its core areas of competence. It is scaling up its technological strengths, investing in global quality research and product development, and launching into the regulatory markets.

The Company, with its multiple growth platforms, is uniquely positioned. This is coming out of careful planning, nut and bolt organising, with intent to create a profitable and growth oriented health care company. In the not too distant future, Aurobindo will be a research & development driven company, with a global reach. It will be a wealth creating machine.

Aurobindo is dedicated to good health and to improve the quality of life. One thing is certain. Impressive growth will come out of scaling up the value chain which, in turn, can come about only with setting our sights higher. Translated, in due course, the stakeholders can look up, and forward.



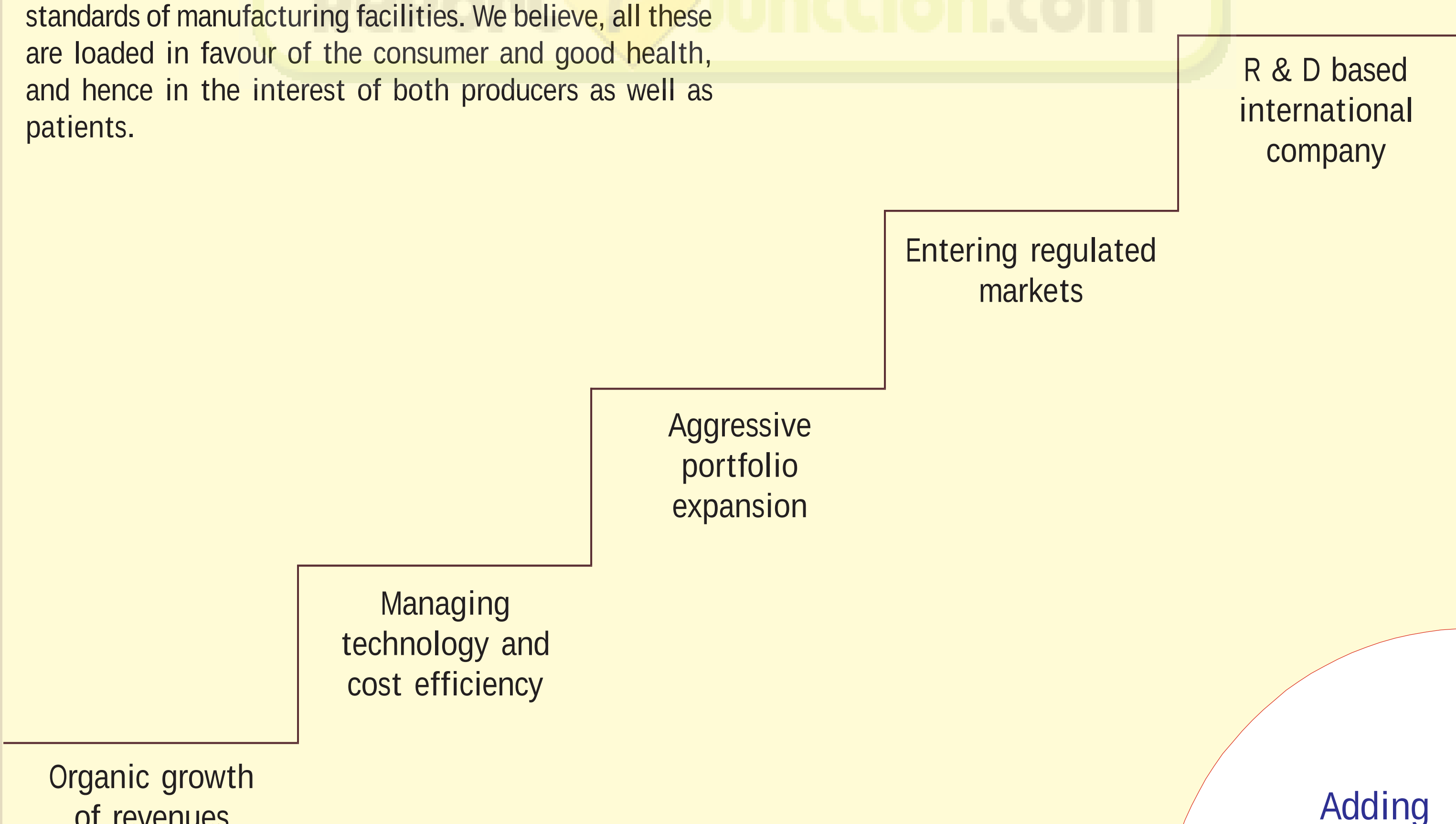
Scaling up the value chain

Dear friends,

As you are aware, we are going through challenging times. The entire pharmaceutical industry is concerned with the impact of the worldwide implementation of the WTO recommendations. While some of the players in the industry see threats when the new regime comes into effect from the year 2005, we at Aurobindo see new opportunities. We believe only the better quality producers who can face up to global competition are likely to prosper.

WTO standards would protect innovators and patents, and allow intellectual property rights. They would create obligation on players in the industry to respect research, innovation and regulatory norms, and compel better standards of manufacturing facilities. We believe, all these are loaded in favour of the consumer and good health, and hence in the interest of both producers as well as patients.

Aurobindo today is a leader in the country in its chosen field, and the plans on hand are to become a significant player in the world. The Company therefore has set milestones to create world class facilities that will be both regulatory approved as well as cost effective and have products that will straddle the markets. The Company will become a significant player in markets that respect quality and therefore offer premium price, In the process, Aurobindo will ensure that the entire business chain creates wealth and adds value to stakeholders.



Adding Value

Our strength is in our executional abilities. The Company has a track record of completing its projects on time and within the planned costs. We at Aurobindo are not just content with laying down broad policies, but actualize them by monitoring day-to-day performance, pre-empting and removing obstacles, and motivating people to deliver on time. We believe in accountability. We are ambitious, but moderated by doing the right things extraordinarily well. This record will be maintained.

However, in the process of revamping the organisation, it is possible that there is reduced speed in growth, in both top line as well as in the bottom line. Although care will be taken to minimise them, there could be the impact of planned shutdown, with the result the financials might appear to be decelerating.

It is essential that Aurobindo increases capacities and improves its delivery channels. We need to do it keeping the changing rules of the game. We believe that it is not enough to be a lead player in the country, but have capabilities that can help the Company take on the regulatory markets and contribute significantly. We will be research lead, and are working to seek a decent market share in the global arena.

This can come only at a cost, and that cost may be in our case, a slower or flat growth when the facilities are being revamped. We believe that we will be in full throttle in the first quarter of 2002-03, and to ensure that the Company is very strongly placed for the forward years, a large number of initiatives have already been taken.

In short, we at Aurobindo, are climbing the value chain. In order to make things happen, nothing is too small for us. We will carefully strategise, organise and ensure success. We will remain long-term players working for profit and growth. Our business, we reiterate, is to discover, develop and deliver products and results. Ultimately, we are here to add value to health, create good life and be a commercial organisation creating wealth.

The business is becoming robust. Our stakeholders can look forward to the future with confidence. Team Aurobindo is single minded about making the Company one of the best players in the industry. We will make it happen.

With warm regards,

Yours sincerely,

P.V.Ramaprasad Reddy
Chairman

Re-engineering the organisation

All of us at Aurobindo have taken in our stride the results of the Company for the year ended March 2001. While the turnover improved by 34.5 per cent to Rs.1007 crore, operating profit (profit before interest and depreciation) increased by 15.9 per cent to Rs.139.89 crore. Indeed, the net profit dropped by 8.4 per cent to Rs.68.31 crore.

The above results are not comparable with that of the previous year for two reasons. Firstly, the current year results include an overall loss absorbed while taking over Sri Chakra Remedies Limited pursuant to the amalgamation of that company with Aurobindo. Secondly, the Company has changed its accounting policies in line with prudent and conservative norms, with the ultimate intention of leading to adoption of US Generally Accepted Accounting Practices (GAAP). The Company has been cautious in recognising both incomes and expenses, consequent to which profits have been shaded.

These results should not dishearten us. On the contrary, we believe it is better to have a conservative balance sheet, and that we must change for what is better and in the interest of the Company. We should rather see the quality of the numbers that we have in the Balance Sheet and the Profit & Loss Account are representative of the organisation as it stands. We now have a stronger company leveraged to take the best out of the future opportunities. Aurobindo is a long-term player, and credibility and financial discipline are important in this build-up.

Going forward, in the financial year 2001-02, the Company is re-engineering its infrastructure and gearing itself to meet the challenges that lie ahead of the pharma industry. Some of our plants are being prepared for approval by the global regulatory authorities. There would certainly be some, although minimum, interruption in production while the necessary revamping is done.

We are also particular that all the production facilities are made cost effective, and made ready to take on competition from countries like China who produce some of the finest products at the most competitive rates. In this period of hiatus, there would be minor but unavoidable drop in numbers. We believe the Company has to consider the financial year 2001-02 as a period of investment in more ways than one.

Aurobindo is readying itself for the tougher global markets, where many things matter. Production has to be from approved facilities; quality shall be consistently of the highest standard; products that have been approved by regulatory authorities; and, be in a position to market products in the quality conscious regulatory world.

The priorities are clear. We need to be a strong player with capabilities to deliver, even if in the short term there is a small price to pay. In this regard, we are restructuring the manufacturing capacities. Some of the major moves need mention.

Unit No.3 will be a US FDA approved facility meant exclusively for catering to formulations business. The Pondicherry unit has been shut down. The Sri Chakra unit, referred as the Unit No.1, is being upgraded with the addition of two new blocks. While both of them will be put up for regulatory approvals, one will exclusively manufacture cephalosporins. A new unit, called Unit No.4, is being put up at Vizag which will manufacture bulk actives and intermediates.

Unit No.5 will be a very cost competitive production facility manufacturing APIs. Bulk penicillin and steriles will be sourced from that unit. The existing Unit No.6 is undergoing a major revamp and will manufacture cephalosporins and meet US FDA regulatory norms.

The Company will have atleast two regulatory approved production units, while the others will be cost efficient large facilities employing the latest GMP standards.

Skilled professionals man the Company. Over a period, Aurobindo has become a reservoir of trained personnel, who are committed to the best interest of the Company. This is a strong team, and they will drive up the value chain.

The strategic action plans are being implemented, and revenue models drawn up. The Company is readying itself to enter regulated markets in a big way, and become strong enough to meet the future challenges.

The bottom line is clear. Aurobindo will be a research lead knowledge Company and will once again enter the fast track.

Mr. K. Nityananda Reddy, Managing Director

Improving the cutting edge

Consolidating growth
- the year in retrospect

THE FINANCIALS

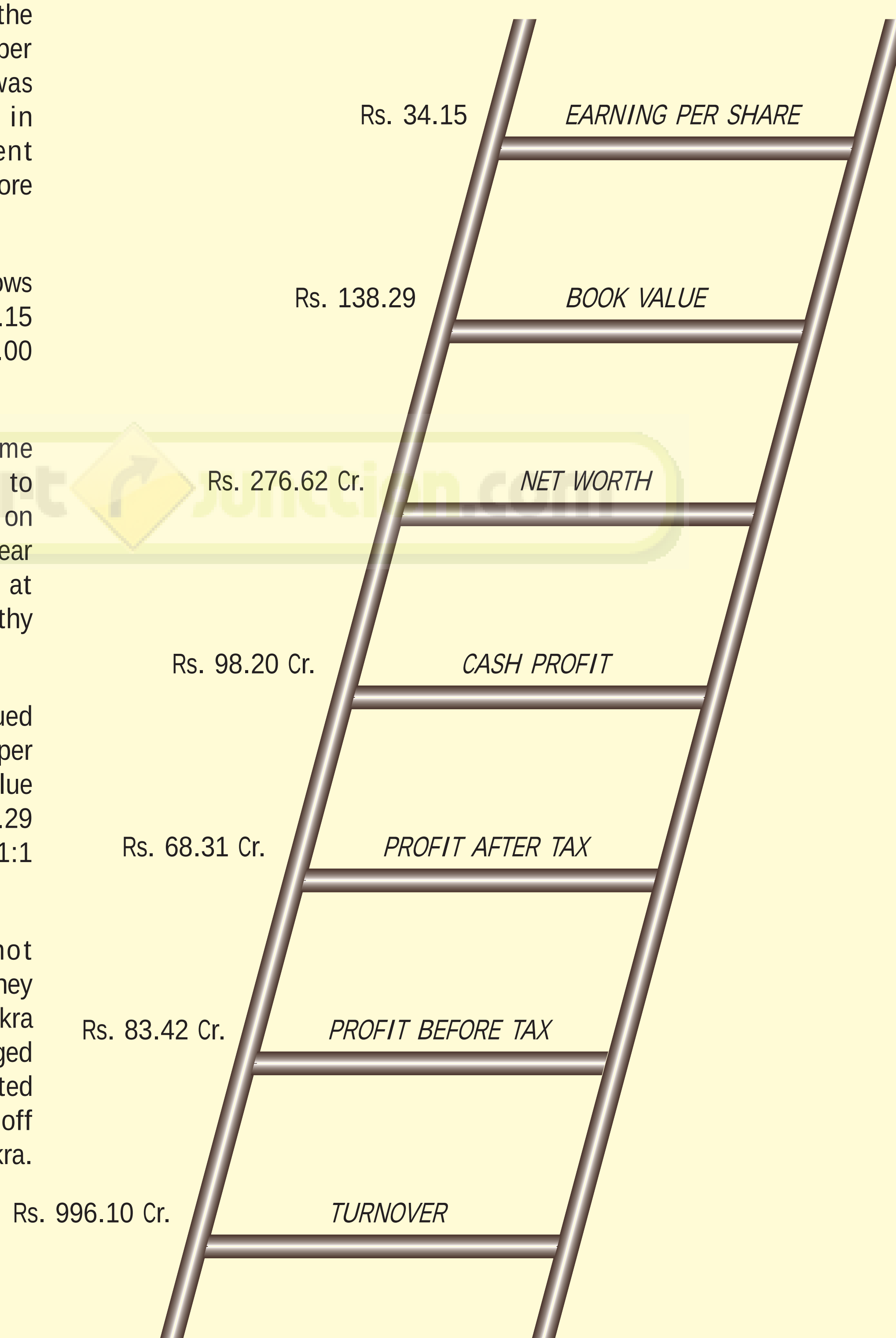
2000-2001 was a landmark year. Turnover of the Company crossed the Rs.1,000 crore mark, with a 34.5 per cent growth year-on-year. This was fueled by an aggressive growth in exports, which saw a 50 per cent growth, and stood at Rs.552.83 crore (FOB value Rs. 544.86 crore)

The net profit at Rs.68.31 crore shows an Earning per Share (EPS) of Rs.34.15 on the expanded capital of Rs.20.00 crore.

Looked carefully, there were some significant ratios. The interest cost to turnover was 4.18 per cent. Return on net worth was 24.69 per cent. At year end, the debt-equity ratio was low at 0.32 and the current ratio was a healthy 1.96.

Net worth of the Company continued to rise. It grew by a healthy 31.2 per cent to Rs.276.62 crore. The book value of the Rs.10 paid up share is Rs.138.29 on the post bonus equity after a 1:1 bonus issue.

The figures for the year are not comparable with the previous year. They include financial results of Sri Chakra Remedies Limited, which was merged with the Company. In the consolidated accounts, the Company has charged off losses brought forward from Sri Chakra.



The Company also chose to adopt stringent accounting norms. Unlike in the previous years, export benefit entitlements have not been considered as income, and shall be accounted for on realisation basis. Higher provisioning and write-offs have been made for certain claims and debts. These changes did impact profits, but more important, they have considerably improved the underlying fundamentals.

In line with the consistent accounting policies followed so far, the Company continued to charge off entire expenditure on research and development, formulation development and product registration expenses in domestic and international markets. The Company capitalises only tangible assets. A clean balance sheet remains a priority.

ABRIDGED PROFIT & LOSS ACCOUNT

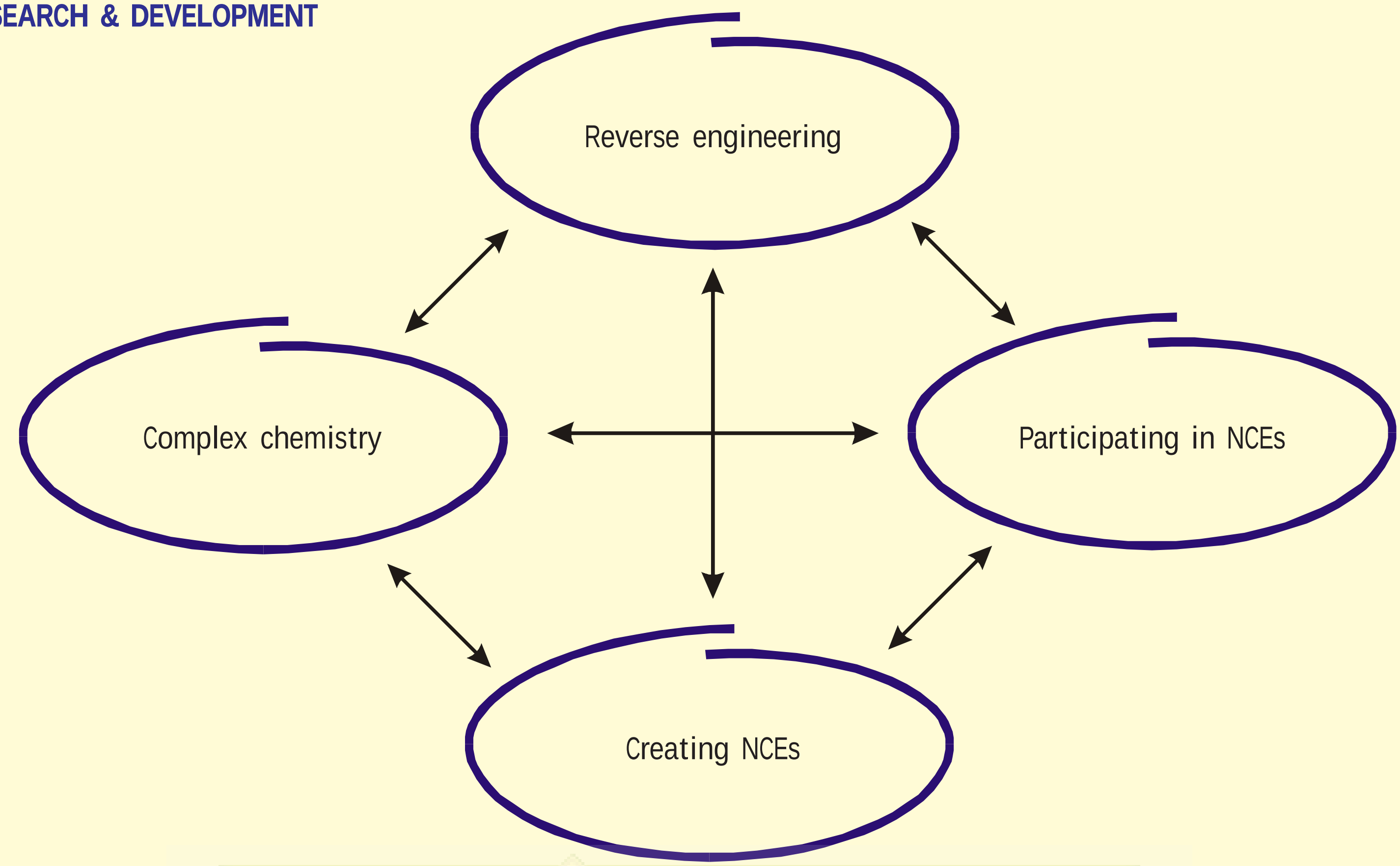
(Rs. Cr.)

	1998-99	1999-00	2000-01
Sales	**550.03**	**745.60**	**996.10**
Other Income	2.79	3.47	11.65
Gross Profit (PBDIT)	78.72	120.71	139.88
Interest	17.10	29.40	41.68
Depreciation	6.29	9.52	14.78
Tax	5.19	7.19	15.11
Net Profit	**50.14**	**74.60**	**68.31**

ABRIDGED BALANCE SHEET

(Rs. Cr.)

	1998-99	1999-00	2000-01
Fixed Assets			
Gross Block	102.22	154.80	209.06
Less: Depreciation	11.52	20.90	37.60
Net Block	90.70	133.90	171.46
Investments	1.86	2.40	23.76
Current Asset, Loans & Advances	252.84	312.23	444.01
Less: Current Liabilities & Provisions	110.01	87.92	136.71
Bank Borrowings (incl. CP)	38.09	51.96	90.21
Net Working Capital	104.74	172.35	217.09
Net Tangible Assets	197.30	308.65	412.31
Less: Secured Term Loans	54.86	61.52	87.24
Unsecured Loans	18.01	27.42	48.45
Net Worth	124.43	219.71	276.62
Represented by			
Share Capital			
- Equity Shares	9.45	10.00	20.00
- Preference Shares	9.00	9.00	0.00
Share Capital Suspense	–	–	0.20
Reserves & Surplus	106.28	200.71	256.42
Total	124.73	219.71	276.62
Less: Misc. Expenditure not written off	0.30	0.00	0.00
Net Worth	124.43	219.71	276.62
Net Worth (excl. Preference Shares)	**115.43**	**210.71**	**276.62**



It was a year in which the Company accelerated on the R&D front. It is now truly becoming an R&D lead pharma company. The world class R&D centre set up in December 1999 on the outskirts of Hyderabad was fully operational and has a team of renowned scientists.

During the year, the focus was on creating non-infringing processes, building capabilities to handle complex chemistry, capturing and executing international custom synthesis business, preparation of drug master files, help filing of Abbreviated New Drug Applications (ANDAs) and working with new active pharmaceutical ingredients (APIs).

The R&D efforts helped develop technology for a few anti virals, which were later commercialised. The centre has created technology for cost effective production of a number of molecules.

The formal approval by the South African MCC for two of the production facilities is only a beginning. The Company is seeking similar approvals from US, UK and European regulatory authorities. Aurobindo will work with a time frame to follow up and obtain necessary certification.

The R&D initiative has facilitated Aurobindo entering the custom synthesis and intellectual property business. There is recognition for the Company and a good track record is being established.

Provisional patents have been filed for certain key product processes with a view to entering the regulated markets. There are more in the pipeline.

The Company introduced 20 new bulk actives in speciality health care areas such as third and fourth generation cephalosporins, cholesterol reducers, antihypertensives, new proton pump inhibitors, new generation penicillin and antivirals. They have further enlarged the product portfolio.