

Annual Report

2001-2002

Metamorphosis in action



 **AUROBINDO**
PHARMA LTD.

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THE COVER

There is vibrancy in the organisation. The metamorphosis is taking the Company to a new era of growth. The coordinated attempt, the electric and exciting undercurrent in Aurobindo is symbolized on the cover.

Planned change initiates growth. Implemented well, and on time, it would sustain the growth. Corporations accelerate growth by managing the change, moving the trajectory, and generating value added solutions to customers.

Aurobindo Pharma is authoring a paradigm shift in its future level of operations. A period of exponential growth has been engineered, driven on the back of a multi layer strategy.

While simultaneous changes are being made, it is yet being seamlessly done, without either disturbing the bread-and-butter lines or the delivery schedules to the customers.

What's the Company up to? Just a few headlines. Upgrading manufacturing facilities. Effecting production efficiencies. Adding commercially strong product lines. Establishing backward and forward integration. Work having started in the previous year, all these are going live in 2002.



Add to that. Improving raw material sourcing. The facilities are being made regulatory compliant. Products are being submitted for global regulatory approvals. Marketing tie-ups being made in quality conscious developed markets. All the while remaining a research based knowledge company.

The objective is simple. Power pack the Company and guarantee a future that will make Aurobindo Pharma a significant world player. The present change is so enormous, the Aurobindo of yesterday cannot be extrapolated to assess the Aurobindo of tomorrow. The Company is getting fast tracked. It is a metamorphosis.

Metamorphosis

in action



Dear friends,

Aurobindo Pharma is getting ready for tomorrow. Every segment of the business is being refashioned, with intent to dominate the generics market of the future. The Company would like to retain its leadership, even as it ventures into the competitive global markets.

We at Aurobindo can take a wider view of the future, largely because of the preparatory work done so far. A blue print was made mapping the future plans. This contained multi tasking of activities, most of them being simultaneously implemented. Some of the major initiatives would need mention.

One. All the manufacturing facilities are being upgraded. Some of them are being exclusively dedicated to servicing the regulatory markets. Hence, they are being made compliant ready.

Two. The rest of the facilities would produce for the price sensitive global markets. The production facilities have been made cost effective. The Company has equipped itself with machinery, talented people with skill sets, and created systems and procedures that can handle both volume and quality.

Three. The Company rationalised its product mix and moved into every generation of select therapeutic segments. More number of cephalosporins and semi synthetic penicillins have been added. At the same time, unconnected products have been shed.

Four. There was rationalisation in management thinking, as well. There is far greater clarity in the business plan. The focus was restated, and the Company is increasing its presence in the generics market. This is where the core competence is, and the plans are to provide a cutting edge to the products and business strategies.

Five. Inefficient plants, processes and overheads have been eliminated. Sale of plant or realignment of the equipment is part of this action. The new and rejuvenated plant facilities will give us the strength to do volume business, in our areas of core competence.

Six. Non-performing business models have been shed. Aurobindo will not be present in low earners or products with long gestation period.

Seven. The plant at China will provide us with key raw materials with certainty of supplies and price advantage.

Eight. Our Research & Development initiatives are giving us re-engineered processes with appropriate chemistry. We will have better technology and non-infringing processes. We are also patenting some of them, to retain the exclusivity with the Company.

Nine. Aurobindo is chiseling its cost structure, with intent to work within defined parameters of cost. Our objective is to contain raw material costs and all the other costs including overheads. Improving margins on an increasing topline, would create excitement amongst our stakeholders.

These planned set of activities would effectively derisk the business. Along the way, during the year, low margin products have been shed, and the business model spruced up. All the changes are being put through simultaneously even as the existing strengths in products and markets are being consolidated.

Of course, there was a price attached to such massive change process. Aurobindo decided to charge off the costs to the revenue, with the result the year end showed a flat bottom line. We at Aurobindo are treating the last two financial years as periods of investment, when we changed gear, and are metamorphosing into a strong business enterprise.

We will be controlling many levers of performance. We will have strategies that will improve the rate of growth. Product renewals, volume expansion and strong self sustaining bottom line should result in predictable value creation.

One thing is certain. While the past has been solid on strong foundations, we cannot extrapolate the past into the future. Aurobindo of tomorrow will be totally different and growing at a faster clip.

Aurobindo Pharma is busy creating excitement in the interest of its stakeholders. Wealth creation for our stakeholders will always remain our priority. The metamorphosis now taking place is an essential part of this agenda.

With warm regards,

Yours sincerely,



P.V. Ramaprasad Reddy
Chairman

Managing the change

The year ended on predictable lines. Our Members will recall in the previous annual report, we had taken a conservative view of 2001-02. Re-engineering of the entire organisation was expected to be an investment in more ways than one.

To quote, "Going forward, 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 being done". We had indeed forecast, "a slower or flat growth when the facilities are being revamped".

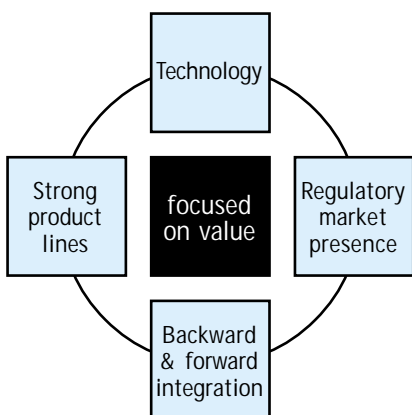
The year did show a very marginal rise in both top and bottom line, with the top line being a touch better. As has been the practice, the Company chose to be prudent and report a performance after absorbing all relevant costs. We would not like to carry forward costs in the balance sheet.

Management of the year had its own excitement. Aurobindo has become the largest manufacturer of sterile cephalosporins. We have established a leadership, and have become the preferred source for all major customers.

We introduced new products, and saw immediate acceptance. The launch of new generation of cephalosporins and their acceptance not only confirms our quality standing, but also adds a vertical range to the product mix.

The formulations business was spun off, and a joint venture now runs the brands. They are focused better, than we could ever be.

It was also a year when we placed the Company's shares in the market, and received a favourable response from major international firm of investors.



Our Members would be interested to know that we could progress as planned in our endeavour to restructure the business. Today, we have production facilities that are the pride of the Company. **Unit 6** is entirely dedicated to the cephalosporins business, and will be ready for regulatory inspection by early 2003.

The erstwhile Sri Chakra plant, redefined as **Unit 1**, has its utilities optimized and has a block for intermediate and APIs and another that can exclusively meet USFDA standards.

The new state-of-the-art plant being put up near Srikakulam, the **Unit 4**, is a mega cost efficient unit that will go on stream in two phases, the first in September/October 2002 and the second in January 2003. It will manufacture products like ciprofloxacin, enrofloxacin, amoxycillin and a number of critical intermediates like 7ADCA that would help reduce the overall cost of production. This plant will give a healthy contribution to the profitability of the Company.

The 100 per cent subsidiary being set up in China will help procure a key raw material 6 APA at far more economical cost, but also ensure there is certainty of supplies. Lower RM cost would add further excitement to the bottom line. This unit is expected to go on stream by end of 2002.

The Company in the meantime has stepped up its quality control and quality assurance systems, added to its skill sets, decentralized and professionalised the team, empowered the operating managers and has meticulously executed change management.

The set of managerial actions now being put in place, would add to top and bottom line, create economical and quality sources of supply and make available a window to the regulatory markets.

It is a resurgent Aurobindo that is looking ahead. There is a winning team that is spearheading this resurgence.



Getting ready for the future - a retrospective

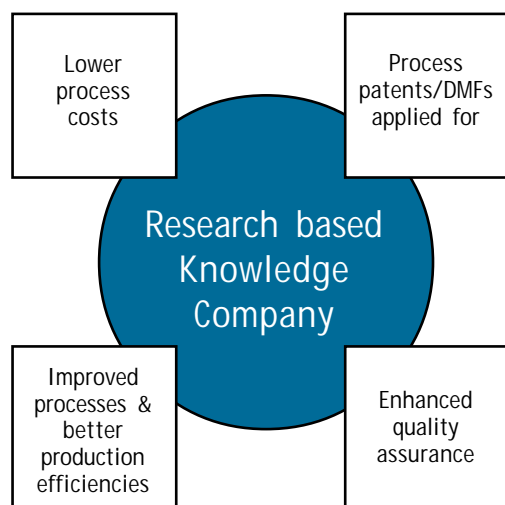
Numbers alone do not tell the full story. Many milestones were crossed during 2001-02. New initiatives taken have made Aurobindo a different company, than it was at the beginning of the financial year.

Structural changes to the production facilities are only one of them. Some of the other notables need to be inventorised.

During the year, Aurobindo did reverse engineering and commercialized 5 anti-viral compounds. Research and Development Centre have also synthesised certain complicated molecules for the first time in India and the same has been successfully commercialised.

The Company have identified 12 products in the first phase for entry into generics market. For some of these products, the R&D Centre has identified and standardised non-infringing processes in the fields of Cephalosporins, anti-depressant, anti-hypertensive drugs etc. Impurity profiling and validation studies are in progress.

Aurobindo has already filed for 14 process patents. Two of them have been approved and the rest are under consideration. 4 more process patents have been filed under the Paris Convention Treaty, which would help marketing in Europe. When approved, Aurobindo will have exclusivity on those process patents. Holding process patents in combination with US FDA approval for any generic product, makes for a strong presence.



Drug Master Files for 3 products have been submitted and are being prepared for 12 more products. Inspection by the authorities would precede approval, and the Company has ensured that the facilities, systems and validation processes are ready.

Products of Aurobindo give the customers a wider choice. This is a unique strength that is often unmatched. The product list has a chain of APIs and generics, offering a complete spectrum from bulk actives to intermediates, from first generation antibiotics to the latest molecules, from oral to steriles, both lyophilized and crystalline.

Indeed, Aurobindo Pharma is often considered a one-window source by many customers. This also makes the Company a preferred vendor for many. During the year, keeping the customer needs in mind, the Company continued its systematic process of adding to the product mix.



Being customer centric, during the year, the Company invested further in quality. Analytical research has helped create a library of 300 impurities. The result is the customer today gets better quality than he got in the past. The results are far more consistent. Seen in perspective, Aurobindo meets every stringent specification.

The initiatives of the year have further reinforced Aurobindo and helped it to continue offering the most competitive price to its customers. This is helped by a number of factors: larger volumes in place, more efficient processes, faster time cycles, higher yields, and better recoveries.

Indeed, Aurobindo treats the waste, recovers by-products and sells them to raw material manufacturers. While the pollution load is minimised, there is lower cost of production.

During the year 2001-02, the Company carried out custom synthesis for two Japanese customers. Aurobindo is capable of synthesizing and giving them their products, as they want.

The year also saw the teeth-to-tail ratio improve further. About 40 senior managers joined in technical and marketing functions, with top-of-the-line skills and experience. The net result is, the Company's approach to quality received a shot in the arm.

The domestic formulations business was transferred to a joint venture. Although the business volume was moving up, it needed special attention and a thrust. It was found prudent, to transfer the growing business to a joint venture, where the partner has 40 years of standing. The products are expected to reach out better in the market.

Aurobindo will continue to manufacture the brands owned by the Company, and transfer them to the joint venture at agreed prices, on an arms length basis.

All the major initiatives, especially the restructuring process was done and customers provided with what they want. Care was taken to continue shipments, and pre-empt any sign of uncertainty for the customer. This approach helped maintain relationships and the annual turnover.

Of course, at a price. The impact was on the bottom line. Charging off of additional expenditure and temporary shifting of production sources meant higher outflow. As usual, conservative accounting practices were followed.

In short, the year saw the Company improve its focus and core competence, move up the value chain, add to its reach and redesign itself to face the future.

