

ANNUAL REPORT 2013-14

# DELIVERING RESULTS



AUROBINDO PHARMA LIMITED



## Delivering results

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### WHAT WE SAID

In our annual report 2012-13, we said:

“ We will relentlessly improve our execution capabilities. We will shed low margin products, optimize our capacities, continually push to keep costs down and further strengthen our supply chain. We will accelerate our rate of filings and enter new, more profitable areas of growth. We will also invest in improving our safety culture and reducing environmental footprint.

Through it all, we will keep our focus on quality.

We will add to our organizational momentum. ”

WE DELIVERED ON OUR PROMISES.

OUR RESULTS SHOW.

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## Contents

Highlights of the financial year 2013-14	1	Risks & their management	30
At a glance	2	Notice of the AGM	33
Delivering on promises	4	Directors' Report	37
Delivering sustainable profits	6	Report on Corporate Governance	46
Delivering sustained growth	8	Independent Auditors' Report	58
Significant new initiatives	10	Balance Sheet	61
Increasing R&D productivity	12	Statement of Profit and Loss	62
Delivering quality	14	Cash Flow Statement	63
Nurturing human capital	16	Notes to financial statements	65
Ensuring sustainability	18	Statement regarding subsidiary companies	98
Corporate Social Responsibility	21	Consolidated Financial Statements	100
Board of Directors	22	Proxy form	137
Certifications	24	Attendance Slip	139
Management Discussion & Analysis	25	Forward looking statements	IBC

## Highlights of the financial year 2013-14

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### WHAT WE DID

We made progress towards our key strategic initiatives around the globe. We are well-positioned to deliver significant progress on our earnings and cash flow in 2014-15 and beyond.

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### Consolidated revenue (Net)

**80,997.9**

₹ million  
for the year 2013-14

**38.3%**

increase  
over 2012-13

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### EBITDA

**21,552.1**

₹ million  
for the year 2013-14

**26.6%**

of consolidated  
revenue (net)  
for the year

**142.3%**

increase  
over 2012-13

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### Profit after tax

**11,728.5**

₹ million  
for the year 2013-14

**299%**

increase  
over 2012-13

## At a glance

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### WHO WE ARE

Aurobindo Pharma Limited headquartered at Hyderabad, India, manufactures generic pharmaceuticals and active pharmaceutical ingredients. The Company's manufacturing facilities are approved by several leading regulatory agencies such as US FDA, UK MHRA, Japan PMDA, WHO, Health Canada, MCC South Africa, ANVISA Brazil.

The Company's robust product portfolio is spread over six major therapeutic/product areas encompassing antibiotics, anti-retrovirals, CVS, CNS, gastroenterologicals, and anti-allergics, supported by an outstanding R&D set-up. The Company with 27 year experience develops, manufactures and markets these products globally, in over 125 countries.

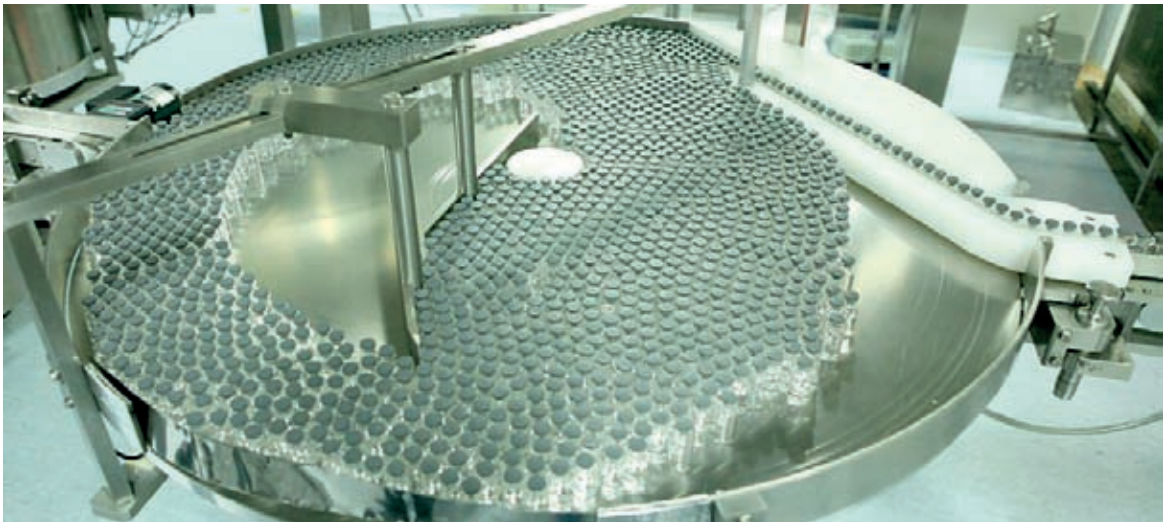
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### WHAT WE DO

Aurobindo's strength lies in vertically integrating its active pharmaceutical ingredients (APIs) with finished dosages to yield quality, generic formulations based on extensive pharmaceutical research. We couple non-infringing processes and chemistry challenges for drug substances with non-infringing and complex drug products developed by using innovative technologies. In the process, the vast scientific pool at Aurobindo creates intellectual wealth for the Company and commercializes cost effective, quality generic finished dosages for people across the globe.

Aurobindo employs more than 9,500 professionals across various divisions - API manufacturing, formulation manufacturing, chemical R&D, formulation R&D and overseas operations.

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At a glance

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**9,500**

professionals  
from 26 countries  
work across the globe

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**4%**

Aurobindo's market share  
in the US generic market  
as at March 2014  
(According to analysts)

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**₹128.7**

Book value  
per equity share  
(Consolidated)

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**₹3**

Dividend for 2013-14  
increased by 100%  
over 2012-13

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**2**

USD billion revenues  
to be achieved  
in 2014-15



# Delivering on promises

## Message from the Vice Chairman



At Aurobindo, the revenues grew faster than the market in 2013-14, and we delivered what we set out to do.

The operating income and cash flow were strong, operating expense as a percentage of revenue was lower, and earnings per share increased by an impressive 300%. The strong cash flow improved the balance sheet and the Company doubled the dividend to ₹3 per share.

We essentially attained our income targets and further improved the Company's value. Gratifying growth and effective cost management led to increased operating income through the year.

We worked hard on four strategic imperatives of business performance that helped accelerate reaching our goals. We enhanced our R&D and manufacturing productivity; improved market share in premium markets for our key products; built up a portfolio of newer, differentiated products; and steadily increased our profitability. A successful product portfolio was central to our corporate strategy. We did well in newer launches, niche products and in parenterals. We strived for structured and result oriented approaches towards enhancing the market presence and margin improvement.

## FOUR STRATEGIC IMPERATIVES OF BUSINESS PERFORMANCE TO ACCELERATE GOALS

### PRODUCTIVITY

1.

Enhance R&D and manufacturing productivity

### MARKET SHARE

2.

Improve market share in premium markets

### PORTFOLIO

3.

Build a portfolio of newer, differentiated products

### PROFITABILITY

4.

Steadily increase profitability

According to independent research reports of industry analysts, Aurobindo has been improving market share of its products in the premium markets. I am gratified to learn that analysts have estimated Aurobindo's share in the US generic market has increased from 1.6% in 2010-11 to 4% as at March 2014.

We shall continue to execute on this tested approach to drive value for the Company. Team Aurobindo remains focused on the execution of the Company's operating and financial objectives while also investing in our R&D programs and information technology infrastructure to help position us for future growth and success.

Value in everything we do encapsulates our sustainable and successful professional approach. The commitment, competence and creative power of our people sustained for almost three decades have made Aurobindo a fast growing pharmaceutical company. It is the energy of over 9,500 employees in whom we take true pride as we overcome the challenges ahead.

In pursuing our vision to be a leading generic pharmaceutical company in the world, we are building on the inspiration, expertise and dedication of our

people. We are cultivating high caliber leadership as well as nurturing committed and responsible employees.

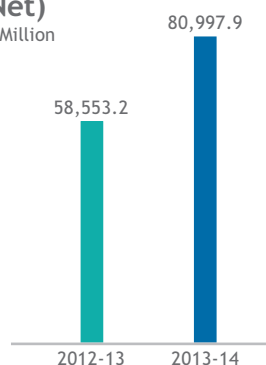
As a process, we are strengthening our structures to institutionalize good corporate governance, professional management, financial discipline and operational excellence. Our focus remains on building our people capabilities and capacities for the growing business of the future.

As I look ahead, we have set clear goals and aspirations for our next set of milestones. In the medium term, building on proven results, we are leveraging the power of our carefully developed product portfolio, relationships built over a long period and a diversified customer mix. Further, we have an optimized cost structure, robust balance sheet and a highly seasoned professional management. While we have multiple levers in place, we are aware that our greatest competitive advantage is our people and are confident this team will continue to deliver results, as planned.

**K. Nithyananda Reddy**  
Vice Chairman

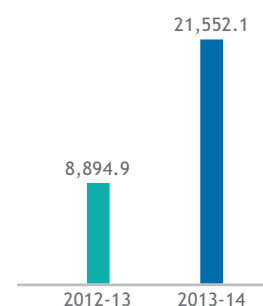
### Revenue (Net)

Consolidated ₹ Million



### EBITDA

Consolidated ₹ Million



# Delivering sustainable profits

## Statement from the Managing Director



It was another year of robust performance and achievement, with accomplishments in all major markets. At each level of the organization, the resilience and resourcefulness of our talented employees ensured that our business continued to grow and that we made inroads in niche product markets.

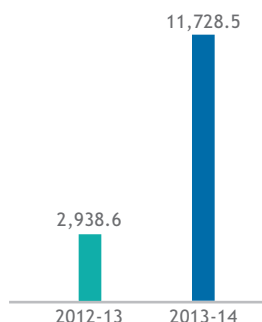
We stepped up on enhancing efficiencies and improved the services to our customers. We significantly increased the reliability of deliveries from all our manufacturing units, especially On-Time-In-Full (OTIF). We aim to continue this trend of improving our level of performance over the coming years. We also listened to our customers and brought in rapid processing of their feedback.

A key element of our high level of performance at Aurobindo is the way we work together. We are shaping an environment where team spirit, respect and fairness flourish. We are leveraging on our management capabilities to focus on efficient execution through streamlined initiatives. We are creating specific skills to face the challenges of tomorrow, improving our processes, being flexible and rapidly implementing new business opportunities. The will to set new objectives, the drive to achieve them and the ability to adapt to change in a highly competitive market are yielding results.

We strengthened the balance sheet during 2013-14. We ramped up volumes, increased revenues and margins and improved cash flow. In fact, we maintained a strong financial discipline and kept a threefold priority

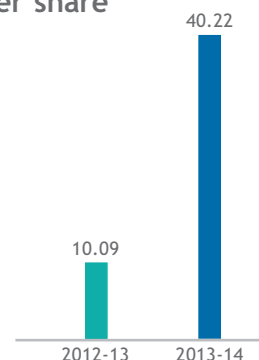
### Profit after tax

Consolidated ₹ Million



### Earnings per share

Consolidated ₹





to deliver on our growth strategies. Throughout the year, we were striving to optimize our cost structure, enhance the consistency of profitability, as well as increase the level and reliability of our cash flow from operating activities to ensure adequate liquidity to meet capital requirements. We generated traction by improving efficiency through operational excellence, cash generation through disciplined use of working capital and long-term growth by expanding on our strengths.

All our efforts translated into superior quality of earnings. We realized consolidated revenue (net) of ₹80,997.9 million for the year 2013-14. This represents a 38.3% increase over the earlier year. Our EBITDA for the year is ₹21,552.1 million, which is 26.6% of net operating income, and has gone up by 142.3% over 2012-13. Change in sales and business mix had a favorable impact on material consumption to net sales. Cost of materials for the year under review was 44.5% of consolidated revenue (net) in comparison to 51.1% in the previous year.

We delivered earnings per share of ₹40.2 as against ₹10.1 in the previous year, reflecting margin expansion, product mix changes, lower material consumption, cost reductions, process improvements and effectiveness in the marketplace.

These numbers would have been better but for the volatility in rupee-dollar equation. The closing rupee versus US dollar rate was ₹59.915 on March 31, 2014; and a year ago, at end of March 2013, it was ₹54.285. The rupee depreciated by 10.4% in 2013-14 which resulted in a net forex loss of ₹2,022.2 million for the full year largely due to the reinstatement of our dollar-denominated borrowings as against ₹1,353.2 million in 2012-13.

Aurobindo of today is far better positioned for long term sustainable growth and profitability. We have

several established products, a growing pipeline of newer niche products, proven execution capabilities and a competitive cost structure. Our complex and multifaceted global business is managed by a team of dedicated and highly experienced professionals.

The organizational structure ensures sharp focus on accountability especially in areas such as quality and compliance standards. Our strengths provide us with tremendous opportunities to enhance competitiveness, to improve our position in the marketplace, to raise the productivity levels in all functions, while we strive to reduce the risk quotient. The resilience of our business and the investments that we have made over the past few years underlines my confidence in the prospects of our business.

We enter the new financial year 2014-15 with renewed optimism. We propose to drive further growth with new products, add to the momentum with niche launches and aim to enhance profitability. With our known capabilities, we are also foraying in a calibrated way, into differentiated product lines such penems, peptides, oncology, hormone, neutraceuticals and OTC products. We will continue to drive growth through unparalleled knowledge in chemistry, increase the investment in intellectual property, improve our market reach and forge mutually advantageous partnerships with our customers.

Across the Company, we have one overriding objective and commitment: generating results that are profitable and sustainable. We will enhance the efficiency with which products are launched and improve the ability to seize strategic opportunities. On the whole, Aurobindo is aiming to drive up the bottom line to further strengthen its position as a leading pharmaceutical company.

**N. Govindarajan**  
Managing Director

# Delivering sustained growth

*Statement from the CEO, Formulations*



We continued to invest in building a quality organization as we focus on optimizing the mix of products and markets in line with capacities to drive operating efficiencies.

I am pleased that we achieved strong performance both operationally and financially and made significant investments in research, products and marketplace. We took decisive steps to ensure our success in US as well as in Europe. This includes executing on our operating plans in the short-term while seizing ample opportunities for growth across our businesses. In 2013-14, we continued investing to capture this growth.

The year was good on several fronts. We planned well to move into the markets, stepped up our capacity utilization at all manufacturing units, de-bottlenecked our operations, ramped up on automation, upgraded our operating systems and processes, worked hard on quality assurance, optimized our supplies, improved our effectiveness in supply chain, deepened our presence in each country that we are present, augmented our pharmaco vigilance systems and processes, strengthened our management team, and generally did well end-to-end in all aspects of our operations.

The financial results reflected the effectiveness of our growth engines. Gross sales from formulations for the

