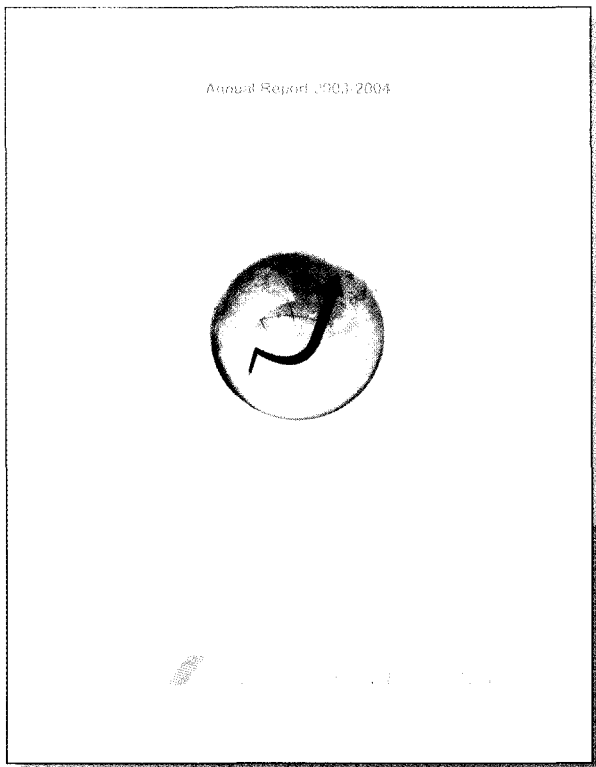


## Annual Report 2003-2004



**ap** / *ajanta pharma limited*



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*The world has become  
a global village  
and one need to look at  
the globe for growth.  
Ajanta pharma has set it's sight  
on the global market  
with established presence  
in 30 countries.  
And more are  
being added. . .*



## BOARD OF DIRECTORS

<b>Mannalal B. Agrawal</b>	Chairman
<b>Purushottam B. Agrawal</b>	Managing Director
<b>Madhusudan B. Agrawal</b>	Jt. Managing Director
<b>Dr. Krishnan Ramamoorthy</b>	Director
<b>Chandrakant Khetan</b>	Director
<b>Yogesh M. Agrawal</b>	Executive Director
<b>Dr. Ramesh Jhawar</b>	Director
<b>Dr. Anil Kumar</b>	Director
<b>N. M. Ambade</b>	Nominee Director, IDBI
<b>P. R. Sonawane</b>	Company Secretary
<b>Kapoor &amp; Parekh Associates</b> Chartered Accountants	Auditors

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# ANNUAL REPORT 2003 - 2004

## DIRECTORS' REPORT

To the Members,  
Your Directors take pleasure in presenting their 25<sup>th</sup> Annual Report for the year ended March 31, 2004.

### FINANCIAL PERFORMANCE

	(Rs. lacs)	
	Year ended 31 <sup>st</sup> March, 2004	Year ended 31 <sup>st</sup> March, 2003
Total Income	12,084	10,285
Profit before Depreciation, Taxation & extraordinary item	1,183	1,058
Less: Depreciation	681	707
Profit before taxation & extraordinary item	502	351
Extraordinary item – Write off of receivables & investment	436	Nil
Profit before taxation	66	351
Less : Provision for Taxation	30	125
Net Profit after Tax	36	226

### MANAGEMENT DISCUSSION AND ANALYSIS

#### 1. Industry Structure – Development, Performance Review & Outlook

The global healthcare industry has seen time changing very fast. With increasing cost of research and development and lower returns, big pharma companies are reworking their strategies. The big pharma players are focusing only on basic research and marketing while outsourcing further research and manufacturing to low cost destinations like India. The Indian pharma companies have already made a significant mark and created a niche for themselves in the highly regulated markets like US, Europe and Japan. Indian companies after having established themselves as formidable players in the generic market in the US, are moving up the value chain and putting in place building blocks to enter high margins speciality market. These companies have achieved globalisation in terms of market presence, supply chain, capital base, talent and corporate mind set. The mid sized Indian pharma

companies are not far behind and have come out with novel ways like contract manufacturing and making inroads in the unregulated and semiregulated markets.

Your company has also followed the later strategy to further strengthen its presence in the international market. Your company has built on its strength of low cost manufacturing, strong development capabilities and ability to provide customized products. The flexibility in operations had been and is the key strength for the company and going forward, we would like to retain this competitive advantage. The growth is catalyzed by the strategy of entering first in the segment and staying last to capture the market. Your company's presence in 40 countries with 72% of the turnover coming from exports proves its capabilities to stay and grow in the international market.

The domestic market growth has been in single digit mainly due to low prices. Price controls, multiplicity of players, generic and branded generics kept the prices low in the fiercely competitive market in the country. The product patent regime in 2005 being just round the corner, the industry is busy reworking strategies for growth. The market saw a flurry of new product launches which augured well for the patients. Your company has been always ahead in product launches. Some of the examples of this are India's first Gatifloxacin based eye drop "Gate", which is the only fourth generation fluoro quinolone, the first choice in ocular surgeries, "Met XL" a New Drug Delivery System (NDDS) preparation useful in hypertension and congestive heart failure, "Rosuchol" and "Ezemibe", the latest drugs available in the world for lowering cholesterol in heart patients and "Tadalis" the wonder drug for male erectile dysfunction.

#### 2. Opportunities, Threats, Risks and Concerns

The governments worldwide continue their emphasis on healthcare. The multilateral agencies are also increasing their spending towards healthcare in under developed and developing countries. This offers immense opportunities to the industry. Though the competition is increasing all over the world market, India in general and your company in particular scores better with its best quality and value for money. The patent regime by 2005



will bring some restriction on new product launches. The industry is gearing up with options like licensing, tie-ups, co-marketing and off patent molecules. The companies like ours with well-established marketing network worldwide and quality consciousness will have an edge in the market for getting better options.

The increasing competition and imminent patent regime are the two major risks the industry has to be prepared for and will remain the areas of concerns. The continued nonviable operations of the Joint Ventures in Uzbekistan, poor response for financial closures of Joint Ventures in Kazakhstan and Kyrgyzstan and delays in implementation in Joint Venture in Tajikistan is affecting and will further affect the recovery of outstanding receivables and the investments in these Joint Ventures. The wholly owned subsidiary in Uzbekistan is also not performing due to adverse market conditions and hence may affect these investments. As part of its overall risk management strategy, the company has insured all its assets including fixed assets, current assets, assets in transit against various types of perils like fire, earthquake, flood, transit loss, theft etc. The manpower is also insured for accidents, illness etc.

### 3. Internal Control Systems

The company has comprehensive internal control systems including policies and monitoring procedures. The safety and protection of assets from unauthorised use, disposition or loss is well ensured through well documented systems & processes.

### 4. Human Resource Development

It was always your company's priority to nurture, motivate and retain talent. It is the motivated and dedicated efforts taken by the strong team of more than 1000 people that the growth momentum was maintained. Knowledge updating and overall development of its people is a regular process through regular in-house and outside training.

### Cautionary Statement

The statements in the reports of the Board of Directors and Management's discussion and analysis describing company's projections, estimates, expectations or predictions may be forward looking statements within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed

or implied since the company's operations are influenced by many external and internal factors beyond the control of the company. The company assumes no responsibility to publicly amend, modify or revise any of these statements on the basis of any subsequent developments, information or events.

### OPERATIONS

Your Company's sales have increased to Rs.120.65 crs for the year, indicating a growth of 18% over the previous year. Exports increased its share to 72% of the total turnover for the year against 63% for the previous year. The global brand building exercise was further accelerated with launching more products and adding more countries to the basket. During the year your company received approval for 21 new products for domestic market and 46 new products for the export market. The enormous efforts on product registration worldwide took a major leap with 255 dossiers filed during the year.

In line with the industry trend and due to appreciating rupee against dollar, the operating margin has seen a decline of 4% over the previous year. However, reduction in interest cost and depreciation helped to maintain the net margins at the previous year level. Your directors' have decided to write off part of the long outstanding related to JVs as they are not recoverable. The subsidiary in US has been closed and hence the investment in the same has also been written off.

### DIVIDEND

With a view to conserve the resources for funding the growth, your directors do not recommend any dividend for the year.

### RESEARCH AND DEVELOPMENT

Your company's R & D activities has been the major source to remain ahead in product launches, many a times amongst the first few to launch that product in the country. The successful launch of Gate, Tadalafil, Met XL, Rosuchol, Ezemibe etc was the result of dedicated and continued efforts in R & D. The growth in the coming years will be driven by your company's R & D which will keep the company ahead of competition.

### JOINT VENTURE OPERATIONS

Your company's JV in Mauritius and Turkmenistan improved their performance with cash profits for last



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calendar year. This trend is expected to continue and both these JVs will do better in the coming years. However, the operations of other Joint Ventures/Subsidiaries continued to suffer and in some cases have aggravated further. Your company is exploring to hive off investment in these JVs / Subsidiaries. As a first step, part of the outstanding from the JVs has already been written off to the extent considered irrecoverable. It is a matter of great relief that your company do not have any future financial obligation towards any of the JVs / Subsidiaries and hence the exposure will be limited to existing investment and receivables outstanding from them.

## SUBSIDIARY COMPANIES

The reports and accounts of the subsidiaries along with the statement pursuant to section 212 of the Companies Act, 1956 are annexed.

## DIRECTORS

Mr. Mannalal B. Agrawal, Mr. Chandrakant M. Khetan and Mr. Yogesh M. Agrawal, the Directors of the Company, retire by rotation and being eligible, offer themselves for re-appointment.

Mr. Sumit Chandwani-Nominee of ICICI Venture Funds Management Co. Ltd., and Mr. P. K. Sethi-Nominee of IDBI ceased to be the Nominee Directors of the Company with effect from 29<sup>th</sup> July, 2003 and 13<sup>th</sup> October, 2003 respectively.

The Board places on record their appreciation of the valuable contributions made by them during their tenure as Directors.

Mr. N. M. Ambade-Nominee of IDBI has been appointed as a Director with effect from 21<sup>st</sup> October, 2003.

## AUDITORS

The Auditors, M/s. Kapoor & Parekh Associates, Chartered Accountants, Mumbai, retire at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. Members are requested to appoint them as Auditors and fix their remuneration.

## AUDITORS' REPORT

The remarks as contained in the Auditor's Report, read with Notes forming part of the Accounts are self-explanatory.

## FIXED DEPOSITS

The Company has not accepted any fixed deposits from

the public under Section 58A of the Companies Act, 1956.

## DIRECTOR'S RESPONSIBILITY STATEMENT

Your Directors confirm:-

1. That in the preparation of the annual accounts, the applicable accounting standards have been followed.
2. That the directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as at the financial year ended on 31<sup>st</sup> March, 2004 and of the profit or loss account of the company for that year.
3. That the directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
4. That the Annual Accounts have been prepared on going concern basis.

## CONSOLIDATED FINANCIAL STATEMENTS

In accordance with the Accounting Standards AS-21 and AS-27, your Directors have pleasure in attaching the Consolidated Financial Statements which form part of the Annual Report and Accounts.

## MANAGEMENT DEVELOPMENT

During the current year, your company undertook a systematic plan for training the entire team at all level with the objective of "Building Competitive Strengths" in the organisation. All the team members were involved in a series of development programs with a system of feed back. The positive results of this management development program are already being realised by all.

## SOCIAL RESPONSIBILITY

Your company is committed to its social responsibility as a good corporate citizen. It has been the endeavor to focus on few activities to get best results. The three major areas of focus for this purpose identified and being continuously worked on are eye camps, blood donation camps and corrective plastic surgery camps. Special care was taken to ensure maximum benefits of these activities to the most needy segment of the society.



## DISCLOSURE OF PARTICULARS

As required by the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the relevant information and data is given in Annexure.

## PARTICULARS OF EMPLOYEES

During the year under this Report, none of the employees of the Company received remuneration exceeding the limit prescribed under Section 217 (2A) of the Companies Act, 1956, as amended.

## CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a Corporate Governance Report and Auditors' Certificate regarding compliance of conditions of Corporate Governance are made a part of the Annual Report.

## GRATITUDE AND ACKNOWLEDGMENT

Your Directors express their appreciation for the contribution made by the employees to the significant growth of the Company. The board also places on record their appreciation for the cooperation extended by the medical professionals, bankers, financial institutions and investors.

For and on Behalf of the Board of Directors,

**MANNALAL B. AGRAWAL**

*Chairman*

Mumbai,  
May 22, 2004

## ANNEXURE TO DIRECTORS' REPORT

Statement Pursuant to Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988.

### A. CONSERVATION OF ENERGY :

#### a) Energy Conservation measures taken :

During the year 2003-04, various measures were taken for energy conservation as summarised below:

- Used High efficiency motors for AHU.
  - AHU, AHU Pumps, Water Coolers & Exhaust Fans started on Auto Timers.
  - Boiler and Cooling tower efficiency increased by using ECD Magnets.
  - Monitoring wastage's and increasing awareness among people.
  - Petroleum Conservation Research Association, Mumbai, audited the plant for Electrical, Mechanical and Petroleum conservation & they appreciated the installation and the steps taken by us for Energy Conservation.
  - Maintained average power factor at 0.99.
- b) Additional investments and proposals, if any, being implemented for reduction in consumption of Energy : Nil
- c) Impact of measures at a) and b) above for reduction of energy consumption and consequent impact on the cost of production of the goods :

All above measures have resulted in overall reduction in the cost of energy and consequently reduction in the cost of Production.

#### d) Total energy consumption and energy consumption per unit of production :

**Form – A**

### Particulars with respect to Conservation of Energy :

		<b>Current Year</b>	<b>Previous Year</b>
(i)	<b>POWER AND FUEL CONSUMPTION</b>		
	Electricity		
	(a) Purchase		
	Unit	1,296,303	1,145,701
	Total Amount(Rs.)	4,996,037	4,613,526
	Rate/Unit (Rs.)	3.85	4.03
	(b) Own generation		
	Unit	10,899	9,728
	Unit per Ltr. of Diesel Oil	5.19	4.45
	Cost / Unit (Rs.)	5.19	5.23
(ii)	<b>CONSUMPTION PER UNIT OF PRODUCTION</b>		
	The Company manufactures several formulations of different pack sizes. It is therefore, impracticable to apportion the consumption and the cost of utilities to each product.		

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## B. TECHNOLOGY ABSORPTION:

### Form-B

#### Particulars with respect to Technology Absorption: Research and Development (R&D)

##### 1. Specific area in which R&D carried out:

Ajanta's Research Centre is one of those few Research Centres in the Pharmaceutical Industry who has an approved in-house R&D unit by Department of Scientific and Industrial Research, Ministry of Health, Govt. of India, New Delhi.

The specific areas in which the research was carried out are given below:

- Development of new formulations including new ophthalmic anti-biotic formulation the latest fluoroquinolone namely Gatifloxacin in as eye drops.
- Development of New Drug Delivery Systems for some products and novel combinations thereof with other immediate release products.
- Entering into newer therapeutic areas by developing most of the products in that range.
- Development of analytical methods for the new products and conducting stability studies for all the products under development.
- Cost reduction of existing products & product improvisation.

##### 2. Benefits derived as a result of R&D:

- Launch of new products for the Cardiac and Diabetic Care Division, including novel Extended Release formulations of Metoprolol in 4 different strengths and one formulation with combination of amlodipine. Two new products in the category of cholesterol reducing agents were launched namely Rosuvastatin (Rosuchol) and Ezetimibe.
- In the field of Ophthalmic the latest fluoroquinolone namely Gatifloxacin as eye drops was launched in the Indian Market. A combination of Desloratidine with controlled release Pseudoephedrine, branded as Dyl-D was developed for Ethi+care services.
- Sildenafil formulation under the brand Kamagra for Global Market:-
  - Was developed and introduced in new dosage form and was launched in 3 different flavors.
  - Two new products were introduced belonging to the MED category.
- Cost reduction was achieved in a few products, thereby leading to indigenous substitution and giving cost savings without affecting the quality of the product.

##### 3. Future plan of action:

- To develop new products in the cardiovascular and anti-diabetic range.
- To work on novel combinations and develop new patentable allopathic products.
- To continue working on NDDS and on cost reduction of existing formulations.

##### 4. Expenditure on R&D:

i) Capital	:	23.86 Lacs
ii) Recurring	:	89.58 Lacs
iii) Total	:	113.44 Lacs
iv) Total R&D expenditure	:	0.94%
as a percentage of total turnover		

##### 5. Efforts, in brief, made towards Technology absorption, adaptation and innovation : Nil

- Benefits derived as a result of the above efforts, e.g. product improvement, cost reduction, product development, import substitution etc.: N. A.
- In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year) :

Your Company has not imported any technology on payment of consideration in the last 5 years.

## C. FOREIGN EXCHANGE EARNINGS AND OUTGO :

##### i) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plants:

The Company has continued its efforts on global market development and has achieved excellent performance with 35% growth increasing the share in sales to 72% during the year against 63% previous year. The product registration process has been accelerated and 41 new products have been registered and 255 dossiers filed in different countries. The Company has emerged as a strong player in overseas market with presence in more than 30 countries.

##### ii) Total foreign exchange used and earned

(Rs. in Lacs)

	Year ended 31.03.2004	Year ended 31.03.2003
(i) Earnings	6,735.72	5,781.97
(ii) Outgo on import of Raw Materials, Travelling	647.11	532.92





## REPORT ON CORPORATE GOVERNANCE

Ajanta Pharma Limited (APL) has always followed the policy of creation of wealth on sustainable basis in the long term. To achieve this objective, the Company has taken effective steps for institutionalising the Corporate Governance framework.

### I. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

APL's philosophy on Corporate Governance envisages the attainment of transparency, accountability and equity, in all facets of operations and interactions with its Stakeholders, including Shareholders, Creditors, Bankers, Lenders, Employees and the Government.

The Company's philosophy of ENTERPRISM i.e. "the art of creating opportunities and optimising them" has been the guiding force behind the company and is driven by the mission of 'serving global healthcare needs with empathy, innovation and technology'.

This Philosophy and Mission are facilitating the company to fulfill its commitment of achieving the highest standards of corporate governance and treat the Code as a way of life.

### II. BOARD OF DIRECTORS

During the year the Board of Directors of the Company was comprised of 4 Promoters being 3 Executive and 1 Non-Executive Directors and 5 Independent Non-Executive Directors including 1 Institutional Nominee. There have been some changes in the composition of the Board as mentioned hereinafter.

#### • Dates of Board Meetings held during the year

5 Board Meetings were held during the year on 30<sup>th</sup> April, 28<sup>th</sup> June, 26<sup>th</sup> July, 21<sup>st</sup> October in the year 2003 and 10<sup>th</sup> January, 2004. In addition to above, 18 Executive Committee Meetings were held during the year under report.

#### • Information placed before the Board of Directors

Apart from matters which statutorily require Board's approval, all major decisions involving investments, disinvestments, capital expenditure, acquisitions, sale of assets, borrowings and security therefor, winding up subsidiaries and JVCs, issuing letters of authority in favour of various persons, opening new bank accounts, appointment and termination of Consignment and C & F Agents, closing non-operating bank accounts etc. are considered by the Board.

The following information is regularly placed before the Board:

- Annual Operating Plans and Budgets.
- Capital Budgets.
- Quarterly Results of the Company.
- Minutes of the meetings of Audit Committee, Investors' Grievance Committee, Share Transfer Committee and Executive Committee.
- Information on recruitment and remuneration of senior officers just below the Board Level.
- Material communications from Government Bodies and notices of material importance.
- Fatal or serious accident, dangerous occurrences and any material effluent problems.
- Details about Joint Venture/ Subsidiaries.
- Human Resource Development Management and Labour Relations.
- Material financial obligations.
- Material transactions which are not in the ordinary course of business.
- Compliance with all regulatory and statutory requirements.

Attendance of each Director at the Board of Directors Meetings and at the last AGM, is as follows :-

Name of the Director	Category of Directorship	No. of Board of Directors Meetings attended	Last AGM Attended	No. of other Director-ships	Committee Membership	
					Member	Chairman
Mr. Mannalal B. Agrawal	P&NED	5	Yes	1	1	0
Mr. Purushottam B. Agrawal	P&ED	5	Yes	3	1	1
Mr. Madhusudan B. Agrawal	P&ED	3	Yes	9	1	0
Dr. Ramesh Jhawar	I&NED	0	No	1	0	0

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Name of the Director	Category of Directorship	No. of Board of Directors Meetings attended	Last AGM Attended	No. of other Director-ships	Committee Membership	
					Member	Chairman
Dr. Anil Kumar	I&NED	2	No	0	1	2
Dr. K. Ramamoorthy	I&NED	2	No	0	1	0
Mr. Chandrakant M. Khetan	I&NED	5	Yes	5	1	1
Mr. Yogesh M. Agrawal	P&ED	2	Yes	1	1	0
Mr. Kamalkishor R. Kagliwal *	I&NED	0	N.A.	2	1	0
Mr. N. M. Ambade **	I&NED	1	N.A.	0	1	0
Mr. P. K. Sethi ***	I&NED	2	No	1	1	0
Mr. Sumit Chandwani \$	I&NED	0	N.A.	5	0	1

\* Mr. Kamalkishor Kagliwal resigned as Director w.e.f. 28/06/2003.

\*\* Mr. N.M. Ambade appointed as a Nominee Director of IDBI w.e.f. 21/10/2003.

\*\*\* Mr. P.K. Sethi ceased to be the Nominee Director of IDBI w.e.f. 13/10/2003.

\$ ICICI Venture Funds Management Co. Ltd., has ceased to be the shareholder and consequently they have withdrawn their nominee Mr. Sumit Chandwani from the Board w.e.f. 29/07/2003.

Includes Private Limited Companies & Foreign Companies

I- Independent

P- Promoter

ED - Executive Director

NED - Non-executive Director

## Details of the Directors seeking appointment/re-appointment at the Annual General Meeting to be held on 30.09.2004.

Name of the Director	Mr. Mannalal B. Agrawal	Mr. Chandrakant M. Khetan	Mr. Yogesh M. Agrawal
Date of Birth	23.08.1947	24.01.1946	14.01.1972
Date of Joining the Board	31.12.1979	14.03.1995	29.04.2000
Expertise in specific functional areas	Industrialist with rich experience in Pharmaceutical business with exposure to Accounts, Taxation and other commercial areas	Technical Graduate, Industrialist of two decades, taking interest in a diverse group of Companies with keen business acumen and conceptual skills. His vision and commitment to professionalism has brought success to all his ventures.	Business Management Graduate from U.S.A. Has handled various aspects of pharmaceutical business in last six years. Has been involved in financing, implementing and commercialising a Business Unit at Mauritius. Presently handling global business of the Company.
List of outside Directorship held	Ajanta Pharma (USA) Inc.	Entremonde Exim Pvt. Ltd Polymermann (Asia) Pvt. Ltd Polymermann (Exports) Pvt. Ltd Baroda Superstore Pvt. Ltd Piramal KD's Superstore Pvt. Ltd	Ajanta Pharma (Mauritius) Ltd.
Chairman/ Member of the Committees of the Board of Companies on which he is a Director	Chairman of the Board and Member of Audit Committee of APL	Chairman – Audit Committee of APL Member – Remuneration Committee of APL	Member- Executive Committee of APL