

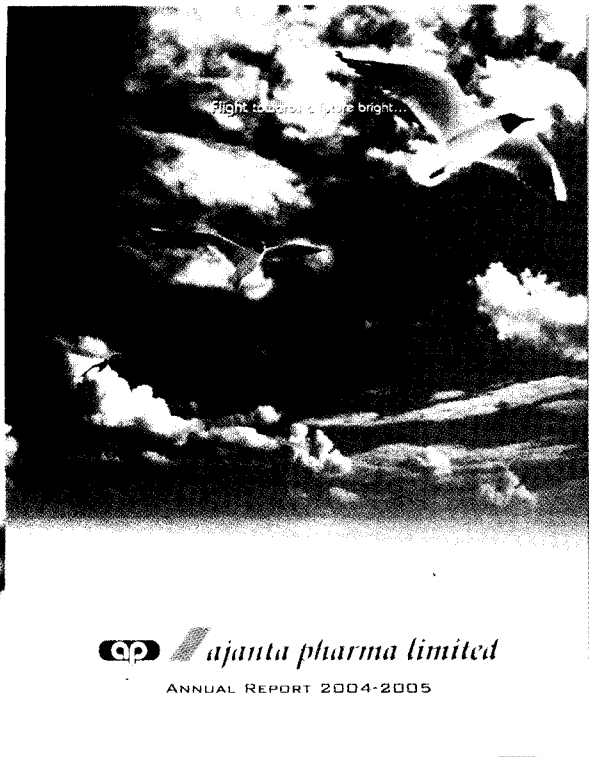
Flight towards a future bright...

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*ajanta pharma limited*

ANNUAL REPORT 2004-2005



Ajanta Pharma  
has striven long  
and hard to reach its present  
enviable position and is now  
flying free and high in the  
global firmament, secure in its  
excellent reputation ,  
capability and a promising  
future ahead. . .





## BOARD OF DIRECTORS

**Mannalal B. Agrawal**  
Chairman

**Purushottam B. Agrawal**  
Managing Director

**Madhusudan B. Agrawal**  
Jt. Managing Director

**Chandrakant Khetan**  
Director

**Yogesh M. Agrawal**  
Executive Director

**Dr. Ramesh Jhawar**  
Director

**Dr. Anil Kumar**  
Director

**J. G. Kinare**  
Nominee Director, IDBI Ltd.

**COMPANY SECRETARY**  
O. P. Singh

**AUDITORS**  
Kapoor & Parekh Associates  
Chartered Accountants

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# ANNUAL REPORT 2004 - 2005

## DIRECTORS' REPORT

To the Members,

Your Board of Directors take pleasure in presenting their 26<sup>th</sup> Annual Report for the year ended March 31, 2005.

### PERFORMANCE HIGHLIGHTS

(Rs. in lacs)

Year ended 31 <sup>st</sup> March	2005	2004
Total Income	17,967	12,084
Profit before Depreciation, Taxation & Extraordinary Items	1,247	1,183
Less: Depreciation	593	681
Profit before Taxation & Extraordinary Item	654	502
Extraordinary items	5,072	436
Withdrawn from General Reserve	(5,072)	-
Profit before Taxation	654	66
Less : Provision for Taxation	(90)	30
Net Profit after Tax	744	36

### MANAGEMENT DISCUSSION AND ANALYSIS

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

The pharmaceutical formulation industry has been facing many challenges all throughout the financial year. The much talked about patent era, MRP based excise duty, uncertainty on implementation of VAT and many more such issues in the domestic market kept the industry on its toes. On the international front the pricing pressures in regulated markets, losing battles on patent challenges, increasing competition in unregulated and semi regulated markets were some of the issues, which kept the industry, busy. All these factors had their impact on the performance of the industry. In spite of all these challenges, however, the Indian industry has established itself as a strong force in the international pharmaceutical market.

Your company has been proactive in terms of all happenings in the international market and had been taking steps to maintain its growth. The aggressive product registration process and opening new markets enabled your company to post a very healthy growth of 48% in sales for the year, with exports contributing 80% to the total sales. However, the happenings in the domestic market adversely affected your company's profitability.

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

The increasing awareness about healthcare worldwide both at individual level as well as at the government level offers immense opportunities to the industry. The pricing pressures and increasing competition are the factors the industry has to live with. The new options in terms of licensing, tie-ups, co-marketing and off patent molecules are being explored to maintain the growth momentum. It is also essential that focus be brought on specific segments to achieve better growth and profitability. Your company has therefore decided to bring focus on two specialised segments of ophthalmology and dermatology /gynaecology. For this purpose two new divisions "Anvaxx" & "Zillion" have been formed in addition to the existing specialised division of "CDC" for Cardiac and Diabetes.

The price pressure and increasing competition are the two major risk the industry has to be prepared for and will remain the areas of concerns. 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

Comprehensive internal control systems including policies, procedures, documentation and reporting are already in place in the company. A well documented systems & processes ensure the safety and protection of assets from unauthorised use, disposition or loss. The internal audit department regularly conducts a review to assess the financial and operating controls in the company. Any significant issue reported in the internal audit report is brought to the attention of the Audit Committee of the Board. The statutory auditors have been attending the audit committee meetings by invitations.

#### 4. Human Resource Development

In this era of competitive environment, your company's priority remains to nurture, motivate and retain talent. The "Man of the year" and "Team of the year" awards introduced by the company for last many years ensure high level of motivation in the organisation. Many programs directed towards performance excellence in different fields were organised to build a pool of talent for the future.



## 5. Cautionary Note

*Certain statements in the reports of the Board of Directors and Management's discussion and analysis 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 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

It was an excellent year of performance with sales growth of 48% and export contribution of 80% in total sales. The sales increased to Rs.178.80 crs against Rs.120.65 crs in the previous year. The profit before tax and extra ordinary items increased by 30% to Rs.6.54 crs. The company's profitability in the last quarter was adversely affected due to proposed introduction of VAT and MRP based excise duty.

Your directors' decided to exit from all the non-performing overseas ventures by writing off the investment therein as well as the long outstanding dues from them, as they were not recoverable. The losses aggregating to Rs.56.41 crs arising out of such exit and write off, net of deferred tax of Rs.5.69 crs have been reflected under the extraordinary item. The corresponding amount has been withdrawn from the general reserve for this purpose. Your company has impaired its patent assets as per the new accounting standard.

## 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 were mainly focused on development of new formulations and improving the existing formulations for cost savings and better delivery. It has been the major source to remain ahead in product launches and product registrations in different parts of the world.

A statement giving details of Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo, in accordance with the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988, is annexed hereto and forms part of the report.

## JOINT VENTURE OPERATIONS

Your company's overseas ventures in Mauritius and Turkmenistan are performing well with profits in the last calendar year. Both these ventures are expected to do better in the coming years and improve their performance substantially. Your directors have retained both these investments for the future growth.

Your directors, however, decided to exit all other non-performing ventures with a view to conserve future resources. The wholly owned subsidiary in Uzbekistan, Ajanta Pharma (Tashkent) Ltd. was wound up. The investment in Tajik Ajanta Pharma Ltd. was sold off. The other three JVs namely Kazakh Ajanta Pharma Ltd., Surkhan Ajanta Pharma Ltd. and Kyrgyz Ajanta Pharma Ltd. are in the process of winding up. Your directors are confident that the time and efforts saved from this exit will help the company to grow further in its business in the coming years.

## SUBSIDIARY COMPANIES

The report and accounts of the subsidiary Company alongwith the statement pursuant to section 212 of the Companies Act 1956 in respect of Ajanta Pharma (Mauritius) Ltd. is annexed. For other three subsidiaries namely Kazakh Ajanta Pharma Ltd., Surkhan Ajanta Pharma Ltd. and Kyrgyz Ajanta Pharma Ltd., the process of winding up has been initiated as per the local laws of respective countries. There will be no realisable assets from these ventures and hence the details required under Section 212 are not applicable. Pursuant to Accounting Standard AS-21 & AS-27 issued by the Institute of Chartered Accountants of India, consolidated financial statements presented by the Company includes the financial information of its subsidiary / joint venture except those under the process of winding up.

## 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 forms part of the Annual Report and Accounts.

## DIRECTORS

Mr. Madhusudan B. Agrawal and Dr. Ramesh Jhawar, the Directors of the Company, retire by rotation and being eligible, offer themselves for re-appointment.

Mr. N. M. Ambade upon withdrawal of his nomination by the Industrial Development Bank of India Limited and Dr. Krishnan Ramamoorthy consequent upon his resignation ceased to be the Directors of the Company

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with effect from 9th March, 2005 and 29th April, 2005 respectively. The Board place on record their sincere appreciation of the valuable contributions made by them during their tenure as Directors.

Mr. J. G. Kinare, Nominee of Industrial Development Bank of India Limited has been appointed as a Director with effect from 9th March, 2005.

**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 were reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year ended 31st March, 2005 and of the profit and 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.

**MANAGEMENT DEVELOPMENT**

In order to prepare the Company to face the challenges of the emerging Global environment, it is imperative to prepare the entire team to stay ahead in terms of multi-skilling and quality leadership. Accordingly, your company has identified training as a thrust area and all the team members were involved in a series of development programme with a system of feedback, result of which have been realised by all.

**SOCIAL RESPONSIBILITY**

Corporate social responsibility remains an integral part of your company. The three major areas of focus identified and being continuously worked by your company are eye surgery camps, blood donation camps and corrective plastic surgery camps. During the financial year, 1259 eye cataract surgeries were performed at different locations for the benefit of the poor class of people.

**PARTICULARS OF EMPLOYEES**

As required under Section 217 (2A) of the Companies Act, 1956 and Rules framed thereunder, the names and other particulars of employees receiving remuneration above the prescribed threshold are set out in the Annexure appended to this Report.

**CORPORATE GOVERNANCE**

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a separate report on Corporate Governance and a Certificate from the Auditors' of the Company 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 and support extended by the medical professionals, bankers, financial institutions and investors.

For and on Behalf of the Board of Directors,  
**MANNALAL B. AGRAWAL**  
CHAIRMAN

Mumbai, 30th April 2005





INFORMATION AS PER SECTION 217 (2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST MARCH, 2005

Sr. No.	Name	Designation (Nature of Duties)	Age (Years)	Gross Remuneration (Rs.)	Qualifications	Experience (Years)	Date of Appointment	Last Employment/ Designation Held	Last Employment Since
1	Agrawal, Purushottam B.	Managing Director	56	26,48,273	B. Pharm	26	31.12.1979	-	-
2	Agrawal, Madhusudan B.	Jt. Managing Director	50	26,52,572	B.Sc.	26	31.12.1979	-	-
3	Agrawal, Yogesh M.	Executive Director	33	26,38,500	Business Management Graduate, USA	11	18.10.1994	-	-

Notes :

1. The nature of employment in all cases is contractual.
2. Gross Remuneration excludes contribution to Gratuity Fund.
3. All the employees are related to Mr. Mannalal B. Agrawal, Non-Executive Chairman of the Company.

## 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.

unit of production :

Form - A

### A. CONSERVATION OF ENERGY :

#### a) Energy Conservation measures taken :

During the year 2004-05, various measures were taken for energy conservation as summarised below:

- Use of power factor Controller.
- User of variable speed drive in HVAC system.
- Use of energy efficient tube lights.

#### 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

Particulars with respect to Conservation of Energy :

Particulars	Current Year	Previous Year
<b>(i) POWER AND FUEL CONSUMPTION</b>		
Electricity		
(a) Purchase		
Unit	1,384,030	1,281,003
Total Amount(Rs.)	5,416,816	4,897,622
Rate/Unit (Rs.)	3.91	3.82
(b) Own generation		
Unit	38,000	23,200
Unit per Ltr.		
of Diesel Oil	4.4	4.4
Cost / Unit (Rs.)	6.77	4.54
<b>(ii) 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 areas in which R & D carried out:

Ajanta's Research Centre is one of those few Research Centres in the Pharmaceutical Industry and it is 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 dermatologicals namely, Melacare and Adacin and Ophthalmic formulation namely Lacoma and Lacoma-T and Ophthalmic formulation without preservatives namely Apdrops.
- Development of New Drugs Delivery Systems (NDDS) 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 following products:

- New product for the Ethicare Division including novel Extended Release formulations of Pseudoephedrine combination with levocetirizine.
- A new product in the category of Cholesterol reducing agents in the brand name Atorvastatin in combination with Ezetimibe in CDC Division.
- In the field of Ophthalmic Prostaglandin F analogue namely Latanoprost eye drops under the brand name Lacoma to reduce elevated intraocular pressure.
- A combination of Latanoprost and Timolol Maleate eye drops under the trade mark Lacoma-T.
- An Ophthalmic formulations of Moxifloxacin uniquely made without the use of preservatives under the brand name Apdrops.
- Sildenafil formulations under the brand name Kamagra was developed in Orange flavour for Global Market.

- 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                                                  | : NIL            |
| ii) Recurring                                               | : Rs. 74.59 Lacs |
| iii) Total                                                  | : Rs. 74.59 Lacs |
| iv) Total R&D expenditure as a percentage of total turnover | : 0.42 %         |

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

#### 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 48% growth increasing the share in export sales to 80% during the year against 72% in the previous year. The product registration process has been accelerated and many new products have been registered in different countries. The Company's focus is clearly on the export market with more countries getting added every year.

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

(Rs. in Lacs)

	Year ended 31.03.2005	Year ended 31.03.2004
(i) Earnings	13,488.57	6,735.72
(ii) Outgo on import of Raw Materials, Traded goods, Capital goods, Travelling, Marketing and other expenses.	1,448.69	647.11



## REPORT ON CORPORATE GOVERNANCE

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

Ajanta Pharma Limited (APL) philosophy on Corporate Governance aims at achieving long term viability of the business by taking into consideration the customers' satisfaction in terms of quality, cordial relationship with shareholders and set up a system which assist to the Board in monitoring business risk. The Company believes in good Corporate Governance and highest level of transparency in all areas of operations and timely statutory compliances.

### II. BOARD OF DIRECTORS

The Board of Directors consist of 9 Directors comprising 3 Whole-time Directors, 1 Non-Executive Director and 5 Independent Directors including 1 Nominee Director.

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

There were six Board Meetings held during the financial year 2004-2005. The dates of such Board Meetings are 20.05.2004, 22.05.2004, 30.07.2004, 30.08.2004, 29.10.2004 and 18.01.2005.

In addition to above, 27 Executive Committee Meetings were held during the year under report.

**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 Directorships (#)	Committee Membership	
					Member	Chairman
Mr. Mannalal B. Agrawal	P&NED	6	Yes	0	1	0
Mr. Purushottam B. Agrawal	P&ED	5	Yes	2	1	1
Mr. Madhusudan B. Agrawal	P&ED	5	Yes	7	1	0
Mr. Yogesh M. Agrawal	P&ED	5	Yes	1	1	0
Dr. Ramesh Jhawar	I&NED	2	No	0	0	0
Dr. Anil Kumar	I&NED	5	Yes	0	1	2
Dr. K. Ramamoorthy@	I&NED	0	No	0	1	0
Mr. Chandrakant M. Khetan	I&NED	4	No	4	1	1
Mr. N. M. Ambade *	I&NED	4	Yes	0	1	0
Mr. Jayprakash G. Kinare **	I&NED	N.A.	N.A.	1	0	0

# includes Private Limited Companies & Foreign Companies

@ resigned w.e.f. 29.04.2005

\* resigned w.e.f 09.03.2005

\*\* appointed as Nominee Director w.e.f 09.03.2005

I- Independent

P- Promoter

ED - Executive Director

NED - Non-executive Director

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## Details of the Directors seeking re-appointment at the ensuing Annual General Meeting.

Name of the Director	Mr. Madhusudan B. Agrawal	Dr. Ramesh Jhawar
Date of Birth	29.03.1955	27.10.1950
Date of Joining the Board	31.12.1979	20.01.1993
Expertise in specific functional areas	B.Sc. Graduate, Industrialist. Travelled worldwide and has made effective contribution in the Company's international business.	US citizen (of Indian origin) holding US passport. Pharma Graduate, Nagpur University and M.S. & Doctorate (Pharmaceutical Sciences) from the Rutgers University, NJ, USA. Experience in various fields including Production, Quality Control, R&D of Pharma Products and teaching. Has published several articles in the field of pharmaceutical technology. Co-inventor of Application Patent for the processing of multi particulate Controlled Release Formulations
List of outside Directorships held	Turkmenderman Ajanta Pharma Ltd., Ajanta Pharma (Mauritius) Ltd., Ajanta Projects (India) Limited.	Nil
Chairman/Member of the Committees of the Board of Companies on which he is a Director	Member - Executive Committee - APL	Nil

### III. AUDIT COMMITTEE

The Audit Committee constituted by the Board of Directors of the Company comprises two Independent Directors and one Non-Executive Director.

Attendance at Audit Committee Meetings:

Name	Status	No. of Meetings Attended
Mr. Chandrakant M. Khetan	Chairman	3
Mr. Mannalal B. Agrawal	Member	4
Dr. Anil Kumar	Member	4

The Company Secretary is the Secretary to the Audit Committee.

The Statutory Auditors, Chief Financial Officer and the General Manager – Accounts attend the meetings on invitation from the Chairman.

The terms of reference of the Audit committee includes the following :-

- To review the Company's financial reporting process and ensure its compliance with accounting standards.

- To review the quarterly, half-yearly and annual financial results of the Company before submission to the Board.
- To make recommendation to the Board on any matters relating to the financial management of the Company including Audit Report.
- To review accounting and financial policies and practices.
- To review compliance with internal control system.
- To review the Company's financial and risk management policies.

The Committee has met 4 times during the financial year ended 31<sup>st</sup> March, 2005 i.e. on 22.05.2004, 30.07.2005, 29.10.2005 and 18.01.2005.

### IV. REMUNERATION COMMITTEE

Terms of reference of the remuneration committee considering the matters relating to the Company's policies on remuneration payable to the Executive Directors, sitting fees payable to the Directors and commission to be paid to the Directors.

The Remuneration Committee re-constituted by the