



## ANNUAL REPORT 2009-10

## Board of Directors

Mr. Chirayu R. Amin  
*Chairman & Managing Director*

Mrs. Malika C. Amin  
*Whole-time Director*

Dr. Babubhai R. Patel  
*Director*

Mr. Pranav N. Parikh  
*Director*

Mr. K.G. Ramanathan  
*Director*

Mr. Paresh Saraiya  
*Director*

Mr. Rajkumar Baheti  
*Director, President -  
Finance & Company Secretary*

Mr. Pranav Amin  
*Director & President-International Business*

Mr. Milin Mehta  
*Director*  
(w.e.f. 30th March, 2010)

## Regd. Office

Alembic Road, Vadodara - 390 003  
Tel: (0265) 2280550, 2280880  
Fax: (0265) 2282506  
Email: [alembic@alembic.co.in](mailto:alembic@alembic.co.in)

## Manufacturing Facilities

Alembic Road, Vadodara - 390 003  
Panelav, Tal. Halol,  
Dist. Panchmahal - 389 350. Gujarat  
Plot No. 21, 22, EPIP - Phase I  
Jharmajri, Baddi, Tehsil - Nalagarh  
Dist. Solan, Himachal Pradesh  
Village Karakhadi, Taluka Padra  
District Vadodara

## Statutory Auditors

K.S. Aiyar & Co.  
Chartered Accountants  
Laxmi Estate No. F - 07/08  
Shakti Mills Lane  
Off Dr. E. Moses Road  
Mahalaxmi, Mumbai - 400 011

## Bankers

ABN-AMRO Bank N.V.  
AXIS Bank Limited  
Bank of Baroda  
HDFC Bank Limited  
IDBI Bank Limited  
Standard Chartered Bank

## Registrar & Transfer Agents

Link Intime India Private Limited  
1st Floor, 308, Jaldhara Complex,  
Opp. Manisha Society,  
Off Old Padra Road, Vasna Road,  
Vadodara - 390 007.  
Tel.: (0265) 2250241, 3249857  
Fax: (0265) 2250246  
Email: [vadodara@linkintime.co.in](mailto:vadodara@linkintime.co.in)

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This report contains forward-looking statements, which may be identified by their use of words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the Company's strategy for growth, product development, market position, expenditures, and financial results, are forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realised. The Company's actual results, performance or achievements could thus differ materially from those projected in any such forward-looking statements. The Company assumes no responsibility to publicly amend, modify or revise any forward-looking statements, on the basis of any subsequent developments, information or events.

## DIRECTORS' REPORT

To, the Members

Your Directors have pleasure in presenting their 103rd Annual Report together with the Audited Statement of Accounts for the year ended on 31st March, 2010.

### I Financial Results

(Rs. in Lacs)

Stand Alone Basis			Consolidated Basis	
2010	2009	For the year ended 31st March	2010	2009
9,662	12,656	Profit for the year before Interest, depreciation, Foreign exchange gain or loss, Non-recurring Income or expenses and Tax	11,688	13,038
		<b>Adjusting therefrom:</b>		
(3,005)	(4,006)	Interest (net)	(3,005)	(4,006)
(4,302)	(3,831)	Depreciation	(4,302)	(3,831)
-	(3,507)	Foreign Exchange gain or loss	-	(3,536)
-	(752)	Non-recurring Income or expenses i.e. diminution in investments	-	(752)
102	3	Provision for deferred tax liabilities or assets	102	3
(389)	(270)	Provision for current taxes	(530)	(270)
-	436	Excess provision of Income Tax no longer required	-	436
2,068	729	Net Profit	3,954	1,082
		<b>Adding thereto:</b>		
7,236	7,972	Balance brought forward from last year	7,589	7,972
9,304	8,701	The amount available is	11,543	9,054
		<b>Appropriating there from:</b>		
667	549	Provision for Dividend - Equity Shares	667	549
113	93	Provision for Corporate Dividend tax	113	93
6	-	Reversal of the Provision for Dividend due to buy-back	6	-
1	-	Reversal of the Provision for Corporate Dividend tax due to buy-back	1	-
792	750	Debenture Redemption Reserve	792	750
207	73	General Reserve	207	73
7,532	7,236	Balance carried forward to next year's accounts	9,771	7,589

## ② Dividend:

Your Directors recommend Dividend on Equity Shares at Rs. 0.50 per share (i.e. 25 per cent) of face value of Rs. 2/- per share for the year ended on 31st March, 2010 as against Rs.0.40 per share (i.e. 20 per cent) for the year 31st March, 2009.

## ③ Management Discussion and Analysis:

The Report on Management Discussion and Analysis as required under the Listing Agreements with the Stock Exchanges is enclosed as Annexure – A to this report. Certain statements in this section may be forward-looking. Many factors may affect the actual results, which could be different from what the Directors envisage in terms of the future performance and outlook.

## ④ Operations:

The Company's standalone Gross Sales including export incentives were Rs.1032 Crores for the year ended 31st March, 2010 as compared to Rs.1120 Crores for the previous year, which shows a de-growth of 8% over previous year.

The Profit before Interest, Depreciation, foreign exchange gain & losses, Non-recurring Income and expenses and Taxes was Rs.96.62 Crores for the year under review as compared to Rs. 126.56 Crores for the previous year.

During the year, the interest and financing cost was Rs.30.05 Crores as compared to Rs. 40.06 Crores in previous year. The Company posted Profit after tax of Rs. 20.68 Crores for the year under review as compared to Rs. 7.29 Crores for the previous year.

The Company has registered a consolidated gross sales of Rs.1149 Crores for the year under review as compared to Rs. 1134 Crores for the previous year ended on 31st March, 2009. The consolidated Profit, before providing for Interest, Depreciation, Non-recurring Income, expenses and Taxes, was Rs.116.88 Crores for the year under review as compared to Rs. 130.38 Crores for the previous year. The Company has made a consolidated profit after tax of Rs.39.54 Crores for the year under review, as compared to Rs. 10.82 Crores for the year previous year.

## (i) Domestic Formulation Sales:

Sales of Domestic formulations for the year ended 31st March, 2010 is Rs.584.90 Crores as compared to Rs. 554.20 Crores for the previous year ended on 31st March, 2009, and reported a growth of 6%.

## (ii) Export Formulations:

The sales of export formulations was Rs.147.76 Crores for the year ended 31st March, 2010 as compared to Rs. 119.65 Crores in the previous year ended 31st March, 2009, registering a growth of 24% over previous year. The above sales include sales to Regulatory Market for Rs.102 Crores for the year ended 31st March, 2010 as compared to Rs. 72.00 Crores in previous year ended on 31st March, 2009.

## (iii) Domestic API Sales:

The domestic sales of API was Rs.118.65 Crores for the year ended on 31st March, 2010 as compared to Rs. 124.11 Crores for the previous year ended on 31st March, 2009, and reported a de-growth of 4%, largely due to pricing pressure on Pen-G.

## (iv) Export API:

The export sales of API was Rs.285.98 Crores for the year ended on 31st March, 2010 as compared to Rs.325.39 Crores for the previous year and reported a de-growth of 12%.

## ⑤ Listing of Shares:

The equity shares of the Company are continued to be listed on Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE).

## ⑥ Fixed Deposits:

The fixed deposits including those from shareholders as on 31st March, 2010 amounted to Rs.49.70 Crores. Unclaimed deposits of Rs.25.89 Lacs from 119 depositors have been transferred to current liabilities, out of this, no deposits have since been repaid or renewed at the option of depositors and no instruction have been received so far and if not claimed in future, it shall be deposited in the 'Investors Education & Protection Fund' in due course, as per the provisions of the Companies Act, 1956.

## DIRECTORS' REPORT

### ⑦ Buy back of Equity Shares:

The buy-back program which was commenced by the Company from December 8, 2008, was completed on 14th November, 2009 as per the terms of the Public Announcement. Till 13th November, 2009 (Completion date of buy back programme), the Company bought back 49,38,991 equity shares (about 82% of targeted buyback of 60,00,000 shares) at an average price of Rs.39.93 for a total consideration of Rs.1972.02 Lacs which is about 60% of the total buy-back size of Rs.3300 lacs. In terms of provisions of Section 77A of the Companies Act, 1956 and SEBI (Buy-back of Securities) Regulations, 1998, the Company has extinguished all the bought back shares. All the necessary formalities for completion of buy back programme have been complied with.

### ⑧ Issue and allotment of Non-convertible Debentures of Rs. 50 Crores:

During the year under review, the Company had allotted Secured Non-convertible Debentures of face value of Rs. 10 lacs each on private placement basis to various Banks and General Insurance Corporation for total amount of Rs.50 Crores for general corporate purpose. The said NCDs have been listed on the Bombay Stock Exchange.

### ⑨ Directors:

In accordance with the provisions of the Companies Act, 1956 and Company's Articles of Association, Mr. Paresh Saraiya and Mr. Pranav Amin, Directors of the Company will retire by rotation at the ensuing Annual General Meeting who are eligible for re-appointment.

Mr. Milin Mehta was appointed as Director of the Company w.e.f. 30th March, 2010 as an additional Director.

The terms of office of Mr. Milin Mehta will expire at the ensuing Annual General Meeting in terms of Section 260 of the Companies Act, 1956. The Company has received notice under section 257 of the Companies Act, 1956 from a member proposing him as candidate for the offices of director of the Company.

The brief resumes of Mr. Paresh Saraiya, Mr. Pranav Amin and Mr. Milin Mehta are given in the Corporate Governance Report.

### ⑩ Energy, Technology and Foreign Exchange:

In accordance with the provisions of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, the relevant information pertaining to conservation of energy, technology absorption, foreign exchange earnings and outgo is given in Annexure-B to this report.

### ⑪ Particulars of Employees:

The information required under section 217(2A) of the Companies Act, 1956, read with Companies (Particular of Employees) Rules, 1975, forms part of this report as Annexure-C. However, as permitted by section 219(1)(b)(iv) of the Companies Act, 1956, this Annual Report is being sent to all shareholders excluding this Annexure. Any shareholder interested in obtaining the particulars may obtain it by writing to the Company Secretary of the Company.

### ⑫ Corporate Governance:

Your Company has complied with all the provisions of Corporate Governance as prescribed under the amended Listing Agreements of the Stock Exchanges, with which the Company's shares are listed.

A separate report on Corporate Governance is produced as a part of the Annual Report, along with the Auditor's Certificate on the compliance.

As required vide clause 49 of the listing agreement on Corporate Governance, the board has laid down a code of conduct for all members and senior management team of the Company. The said code of conduct has been posted on the website of the Company—[www.alembic-india.com](http://www.alembic-india.com). All Board members and senior management personnel of the company have affirmed the requirements of the said code of conduct.

## ⑬ Audit Committee:

The Audit Committee consists of Mr. Paresh Saraiya, Dr. B.R. Patel, Mr P. N. Parikh and Mr. Milin Mehta. Mr. Paresh Saraiya is Chairman of the Audit Committee. The Board appointed Mr. Milin Mehta as member of the Audit Committee w.e.f. 30/3/2010. The Committee reviewed the Internal Control System, Scope of Internal Audit and compliance of various regulations. The Committee reviewed at length the Annual Financial Statements and approved the same before they were placed before the Board of Directors.

## ⑭ Auditors:

M/s. K.S. Aiyar & Co., the Company's Auditors, will retire at the conclusion of the ensuing Annual General meeting and are eligible for re-appointment as Auditors. Members are requested to re-appoint them and fix their remuneration.

The Company has appointed M/s. Sharp & Tannan, Chartered Accountants, as its Internal Auditors to carry out the Internal Audit of various operational areas of the Company.

## ⑮ Cost Auditors:

The Central Government has directed that an audit of Cost Accounts maintained by the Company relating to Bulk Drugs and Formulations for the year ended on 31st March, 2010 be conducted by Auditors with qualification prescribed in Section 233B(1) of the Companies Act, 1956. Accordingly, the Board had appointed Mr. H. R. Kapadia as Cost Auditor for the year ended on 31st March, 2010.

## ⑯ Human Resource Management:

Human capital has always been the most important and valuable asset to your Company. Your Company has enhanced its performance management process that motivates people to take ownership of their own performance and encourages innovation and meritocracy. Employee relations in your Company continues to be cordial and harmonious.

## ⑰ Directors' Responsibility Statement:

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956 with respect to the Directors' Responsibility Statement, it is hereby confirmed:

- i) That in the preparation of the annual accounts for the year, the applicable accounting standards have been followed.
- ii) That accounting policies as listed in the 'Schedule-T' to the financial statements have been selected and consistently applied and reasonable and prudent judgments and estimates have been made so as to give a true and fair view of the state of affairs of the Company as on 31st March, 2010 and of the profit of the Company for the accounting year ended on that date;
- iii) That proper and sufficient care for maintenance of adequate accounting records has been taken in accordance with the provision of the Act so as to safeguard the assets of the Company and to prevent and detect fraud and other irregularities;
- iv) That the annual accounts have been prepared on a 'going concern' basis.

On behalf of the Board of Directors,

**Chirayu R. Amin**

*Chairman & Managing Director*

Vadodara : 5th May, 2010

## ANNEXURE A

### MANAGEMENT DISCUSSION AND ANALYSIS REPORT

#### INDUSTRY PERSPECTIVE

The Indian Pharma Industry has been resilient to the economic challenges. Our Country is holding its ground in the midst of the current global financial crisis. Indian Pharmaceutical industry grew at healthy 18% in last year and is poised for a growth of 13-14% in next three years according to forecast of ORG IMS.

The Indian economy is expected to emerge as the fastest growing economy by 2013 and to be the 3rd largest economy by 2050 (Source: BRICs Report, Goldman Sachs). The GDP growth will be driven by both exports and domestic consumption.

The current spending on healthcare [public and private] is estimated at 6% of GDP and expected to increase to 10% of GDP by 2016. The market remains dominated by acute therapies; however chronic segments such as Cardio Vascular, Diabetes, Central Nervous System and specialty segments like Oncology are growing faster than the market.

India is also emerging as a low-cost, high quality option for outsourcing of research, manufacturing and other services. This offers a great opportunity for the Indian pharmaceutical industry and Indian pharma companies.

The Global pharmaceutical Industry is witnessing a growing importance of generics. Global pharmaceutical market intelligence company IMS Health believes the Indian generic manufacturers will grow at a faster clip as drugs worth approximately \$20 billion in annual sales will face patent expiry in 2011. In fact, with nearly \$105 billion worth of patent-protected drugs to go off-patent (including 30 of the best selling US patent-protected drugs) by 2012, Indian generic manufacturers are positioning themselves to offer generic versions of these drugs. With drugs going off patent each year, generics represent a major outsourcing opportunity for pharmaceutical producers in India. The global pharmaceutical outsourcing market is rapidly growing.

#### DOMESTIC FORMULATION BUSINESS :

The domestic formulation business is a very critical

component of Alembic's business. Alembic has built an important relationship with doctors and is known as the leading company in Macrolides as well as other acute therapies. Alembic has now made a mark in some specialized therapies such as Diabetology, Cardiology and Gynaecology as well.

Alembic undertook a massive restructuring exercise which started in Q1FY09. The benefit of this is visible through recent ORG rankings where the trend is positive and is reflected in ORG sales data. Company recorded secondary sales growth of 25% against Industry growth of 18%. The market share grew to 1.91% against 1.81%.(as per ORG-IMS-March, 2010).

The objective of the massive restructuring was to increase market share, intense focus on customer coverage with customer centric activities, build robust secondary sales and focus on conversion and consolidation targets on a continuous basis. The positive impact of the same is evident from the ORG numbers rolled out throughout the year. However, the Company did not achieve primary sales target due to adjustment in trade inventory. The Company is confident of posting better performance on domestic formulations in the ensuing quarters.

#### INTERNATIONAL BUSINESS :

Alembic's export formulation business to regulatory markets of US, Canada and Europe recorded a stellar performance during the year to cross Rs. 100 crores mark and registered 42% growth over last year. During the year Company launched 3 ANDA's in US market. The Company has filed 26 Abbreviated New Drug Applications (ANDAs) and 39 Drug Master Files (DMFs) and received approvals for 8 ANDA's. Alembic's strategy in International Generics is to partner with International Generic companies and leverage on their marketing and sales capabilities. Alembic typically shares the investment and return with the marketing partners and this helps de-risk its ANDA programme and reduces the upfront investment in the development stage.

While Alembic's contract manufacturing business continue to do well, concern, however, was on account of low priced imports of Penicillin originating from China. Penicillin business

continues to be a drag on the company's profits as average realization remain around 7.5\$ Bμ. The Company has represented to the Government against the dumping of Pen-G being done by China in Indian markets. Anti dumping measures are being considered at the highest level in Government of India. In the meantime, the Company continued to incur heavy losses on this account.

#### **FINANCE:**

The Company has registered a consolidated total income of Rs.1140.77 Crores for the year under review as compared to Rs. 1120.16 Crores for the previous year ended on 31st March, 2009. The consolidated Profit, before providing for Interest, Depreciation, Non-recurring Income, expenses and Taxes, was Rs.116.88 Crores for the year under review as compared to Rs. 130.38 Crores for the previous year. The Company has made a consolidated profit after tax of Rs.39.54 Crores for the year under review, as compared to Rs. 10.82 Crores for the previous year.

#### **OUTLOOK:**

It has been witnessed by the domestic pharmaceutical industry that with increase in GDP and per capita income, more customers are able to afford organized healthcare. This is very important and advantageous for a company like Alembic which has strength in the acute therapy segments since Alembic has started the consolidation process for its product line in the lifestyle disease segment also and is registering growth. It is also looking at various other high growth and niche areas in the domestic segment. Alembic has had a history of having a very good equity with its customers and has successfully built up quite a few large brands.

With India becoming a hub for manufacturing and research operations, Alembic looks to get significant growth from this area as well. Our manufacturing facilities have passed successful inspections from regulatory bodies from all over the world and testimony to that is USFDA status being confirmed to both API and Solid Dosage facilities. Our research labs are well equipped to develop new products and formulations. Low cost of products and strong Intellectual Property are going to be the two most important drivers in the International Generics Markets. Timely

and accelerated quality filling ANDAs / DMFs will be key to Alembic's success in these advanced markets. Alembic has strived to show excellence in both these areas in development as well as manufacturing. It is a focused approach on these two which will give Alembic's Future plans a fillip.

#### **INTERNAL CONTROL SYSTEMS AND ADEQUACY:**

The Company maintains a system of well-established policies and procedures for internal control of operations and activities. The internal audit function is further strengthened in consultation with statutory auditors for monitoring statutory and operational issues. The Company has appointed M/s. Sharp & Tannan, Chartered Accountants, as Internal Auditors.

The prime objective of this audit is to test the adequacy and effectiveness of all internal control systems and suggest improvements. Significant issues are brought to the attention of the audit committee for periodical review.

Moreover, the Company has obtained ISO 9001 and ISO 14001 certification and adheres to the Standard Operating Practices in its manufacturing and operating activities.

#### **HUMAN RESOURCE INTERVENTION IN 2009-10:**

Reinforcing performance orientation and building human capital have been the focus of the company during the year. Efforts of improving effectiveness and efficiency of the employees without losing the "human sensitivity" have been the challenge which has been successfully navigated though during the period.

Cutting across businesses and levels, your company has been able to permeate the company objective to down the line objective which is critical for aligning the employees' efforts and stakeholders' expectations. Periodic reviews and corrective measures were undertaken primarily to encourage and set directions for the employees. To institutionalize the performance orientation, the rewards have been directly aligned to contribution and performance.

Your company has undertaken multipronged approach towards developing employees' capabilities to manage existing and future

## ANNEXURE A

business requirements. Your company has institutionalized 'Talent Screening Workshop' which serves the dual purpose of providing challenging assignments and career opportunities to employees and internal sourcing options and retention strategy for the company. The process of building functional and managerial capabilities of employees has been taken not only by the training cell, but also owned by line managers and superiors.

The endeavor of placing the most appropriate talent at the right position has been successfully achieved as your Company has continued to attract the best talent in all areas. In coming years, the efforts will be to have workforce architecture which will have the right mix of internal and lateral talents to take our company to newer heights.

### **HEALTH, SAFETY, SECURITY AND ENVIRONMENT**

Health, Safety, Security and Environment is at the core of our business and all employees are accountable for it. Alembic's operations follow the best industry practices as regards to Health, Safety, Security and Environment.

During the year under review, safety audits were carried out by third party & all observations / suggestions were implemented. Environmental audits (statutory) were carried out & submitted to pollution control boards for their review. Waste generation was reduced by improving chemical processes at various stages. ISO 14000 certificates were renewed for all API plants which deal with EHS. Enzymatic processes are being tried for waste water treatment at our Baroda plant to reduce energy consumption & also recycling of water.

Alembic carried out the following activities as part of its annual plan:

- a. Basic safety training was imparted to all factory employees including temporary workers. Safety and technical competency development programmes were carried out to improve competencies of employees and employees of contractors for safety critical jobs.
- b. Work place inspections were carried out by executives and managers at all levels. Senior management team members demonstrated

leadership commitment through work place inspections.

- c. Reduced waste generation and improved waste management by collecting and disposing of all waste in an environment friendly manner.
- d. Tree plantation across premises and factories.
- e. Reduced level of sound pollution by providing acoustic enclosures on certain set of machinery and DG / compressor sets.

### **CONTRIBUTION TO SOCIETY:**

Alembic is committed to enhancing the quality of life in and around the community it operates in. During the year under review, the Company undertook a number of development projects with a focus on health, education and vocational training. The Company has a rural development society started in 1980. This is located near Panelav in the foothills of Pawagadh. The Objective is to provide self-employment opportunities through vocational training and education for adults and children in 50 villages in the vicinity.

## ANNEXURE B

*Particulars required under the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.*

### **A) Conservation of Energy**

The Company is committed to preservation of environment and conservation of natural resources. During the financial year 2009-10, following measures were taken.

#### **(a) Energy Conservation measures during the year under review**

- 1) Replacing the existing 1000 TR Vapour Absorption Machine for chilled water with high efficiency Lower Specific Steam Consumption Machine.
- 2) Installing Agitated Nutch Filter with special impeller for lower energy consumption in Penicillin Manufacturing Facility.
- 3) Saving electrical energy by reducing air pressure requirement from 2.5 bar to 2.1 bar in Penicillin Manufacturing fermentation facility.
- 4) Automatic timer operated ball trap provided common in air battery system resulting in compressed air saving drastically.
- 5) Savings of electrical power by reducing cooling tower pump operation at solvent recovery dept.
- 6) Optimising utilisation of Agitator and process pumps for saving energy.
- 7) Upgraded of PLC for Gas Booster Compressor to avoid frequent tripping & interruption in power generation
- 8) Installed Load Management System (LMS) to avoid BLACK OUT in the plant due to GRID PROBLEM.
- 9) Installed Digital Automatic Voltage Regulator (DVAR) in Generator I for better regulation of Voltage & Power Factor.

#### **(b) Additional Investment Proposals for Reduction of Consumption & Cost of Energy.**

- 1) Upgradation of -5 brine chilling compressor system for saving energy.
- 2) Switching over efficient thermax machine to induced cooling tower from existing natural cooling tower resulting in pumping power and improvement in performance.
- 3) Thermography of electrical distribution network to improve the power system reliability.

#### **(c) Impact of Measures at (a) & (b) above for reduction of energy consumption & consequent impact on the cost of production of goods.**

- 1) Lower Consumption of Power & decrease in power cost
- 2) Equipments will operate at optimum efficiency.

### **B) Technology Absorption**

Efforts made in technology absorption:

Form B enclosed

### **C) Foreign Exchange Earning and Outgo**

1. The Export sales were Rs.312.55 Crores (FOB) during the year under review. The Company has undertaken aggressive marketing strategies to increase share of export business.

2. Total Foreign exchanges used and earned :

Please refer para 16(E) of Schedule T "Notes Forming Part of Accounts".