



ALEMBIC PHARMACEUTICALS LIMITED



ANNUAL REPORT 2010-11

Board of Directors

Mr. Chirayu R. Amin
Chairman & Managing Director

Mr. Pranav N. Parikh
Director

Mr. K.G. Ramanathan
Director

Mr. Paresh Saraiya
Director

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

Mr. Milin Mehta
Director

Mr. Pranav Amin
Director & President-International Business

Regd. Office

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

Manufacturing Facilities

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

The Royal Bank of Scotland N.V.
AXIS Bank Limited
Bank of Baroda
HDFC Bank Limited
IDBI Bank Limited
Standard Chartered Bank

Registrar & Transfer Agents

LINK-INTIME INDIA PVT. LIMITED,
B-102 & 103, SHANGRILA COMPLEX,
FIRST FLOOR, OPP. HDFC BANK,
NEAR RADHAKRISHNA CHAR RASTA,
AKOTA, VADODARA 390020
Tel: (0265) 2356573, 2356794
Fax: (0265) 2356791
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Index

Directors' Report	01
Management Discussion & Analysis	05
Report on Corporate Governance	13
Auditors' Report	20
Financial Section	24

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 1st Annual Report together with the Audited Statement of Accounts for the year ended on 31st March, 2011.

① Financial Results :

(Rs. in Lacs)

Stand Alone Basis		Consolidated Basis
2011	For the period ended 31st March	2011
15,581	Profit for the year before Interest, depreciation and Tax	16033
	Adjusting therefrom :	
2,389	Interest (net)	2,389
2,959	Depreciation	2,959
282	Provision for deferred tax liabilities or assets	282
1,801	Provision for current tax and wealth tax	1,864
8,150	Net Profit	8,539
	Adding thereto :	
-	Balance brought forward as per Scheme of Arrangement	1,519
8,150	The amount available is	10,058
	Appropriating there from :	
1,885	Provision for Dividend - Equity Shares	1,885
305	Provision for Corporate Dividend tax	305
3,000	General Reserve	3,000
792	Debenture Redemption Reserve	792
2,168	Balance carried forward to next year's accounts	4,076

The Pharmaceutical Undertaking of Alembic Limited has been transferred to the Company w.e.f. appointed date i.e. 1st April, 2010, however, this being a first year of the Company, the previous years figures are not given.

② Dividend :

Your Directors recommend Dividend on Equity Shares at Re. 1 per share (i.e. 50 per cent) of face value of Rs. 2/- per share for the year ended on 31st March, 2011.

③ Management's 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 Demerger of Pharmaceutical Undertaking

The "Pharmaceutical Undertaking" of the Alembic Limited has been demerged and the same is transferred to the Company with effect from appointed date i.e. 1st April, 2010. The Hon'ble High Court of Gujarat has sanctioned the scheme of arrangement vide order dated 24th January, 2011, certified true copy of which was received by the Company on 21st March, 2011. The Company has filed the said order with the Registrar of Companies, Gujarat on 1st April, 2011. Alembic Limited was holding 5,50,00,000 equity shares of face value of Rs.2/- each in the Company. The Company has issued and allotted 13,35,15,914 equity shares of face value of Rs.2/- each to the shareholders of Alembic Limited on 15th April, 2011 in ratio of 1:1. As per the scheme of arrangement, the Company has submitted applications for listing of 18,85,15,914 equity shares of face value of Rs.2/- each to Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE).

⑤ Operations :

The Company's Gross Sales including export incentives on standalone basis were Rs. 1169.52 Crores for the year ended 31st March, 2011.

The Profit before Interest, Depreciation and Taxes was Rs. 155.81 Crores for the year under review.

During the year, the interest and financing cost was Rs. 23.89 Crores.

The Company has registered a standalone total income of Rs. 1165 Crores for the year under review. The standalone Profit, before providing for Interest, Depreciation and Taxes, was Rs. 155.81 Crores for the year under review. The Company has made a standalone profit after tax of Rs. 81.50 Crores for the year under review.

The Company has registered a consolidated total income of Rs. 1202.13 Crores for the year under review. The consolidated Profit, before providing for Interest, Depreciation and Taxes,

was Rs. 160.33 Crores for the year under review. The Company has made a consolidated profit after tax of Rs. 85.39 Crores for the year under review.

The break-up of consolidated sales is as under :

Particulars	Financial period 31/3/2011
Domestic Formulation	693.44
Export Formulation	223.92
Domestic API	94.51
Export API	179.90
Total	1,191.77

⑥ Listing of shares :

The Company has made applications to Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE) for listing of equity shares.

⑦ Fixed Deposits :

As per the scheme of arrangement, all the fixed deposits accepted by Alembic Limited are transferred to the Company. The Company published statement of Advertisement on 25th April, 2011 for acceptance of fresh deposits. The fixed deposits including from shareholders as on 31st March, 2011 amounted to Rs. 52.41 Crores. Unclaimed deposits of Rs. 21.24 Lacs from 97 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.

⑧ Directors :

Consequent upon demerger of Pharmaceutical Undertaking, the Board of Directors of the Company is reconstituted w.e.f. 31st March, 2011.

On transfer of their services from Alembic Limited to the Company, the Company has appointed Mr. Chirayu Amin as Managing

DIRECTORS' REPORT

Director, Mr. R. K. Baheti as Director-Finance & Company Secretary and Mr. Pranav Amin as Director & President-International Business of the Company. Mr. K.G. Ramanathan, Mr. Pranav Parikh, Mr. Paresh Saraiya and Mr. Milin Mehta have been appointed as additional Directors of the Company w.e.f. 31st March, 2011.

Mrs. Malika Amin has resigned as Director of the Company w.e.f. 31st March, 2011. The Board places on record the valuable contributions made by her during her tenure.

In accordance with the provisions of the Companies Act, 1956 and Company's Articles of Association, Mr. Chirayu Amin, Mr. R.K. Baheti, Mr. Pranav Amin, Mr. K.G. Ramanathan, Mr. Pranav Parikh, Mr. Paresh Saraiya and Mr. Milin Mehta Directors of the Company will retire at the ensuing Annual General Meeting who are eligible for re-appointment. Mr. Chirayu Amin being Managing Director will be appointed as non-rotational Director and other Directors will be appointed as Directors liable to retire by rotation.

The brief resumes of Mr. Chirayu Amin, Mr. R.K. Baheti, Mr. Pranav Amin, Mr. K.G. Ramanathan, Mr. Pranav Parikh, Mr. Paresh Saraiya and Mr. Milin Mehta are given in the Corporate Governance Report.

9 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.

10 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.

11 Corporate Governance :

During 2010-11 the company was unlisted and therefore provisions of corporate governance where not applicable. Consequent upon demerger, the company has applied for listing of shares to BSE and NSE and has also complied with provisions of corporate governance.

A separate report on Corporate Governance is produced as a part of the Annual Report.

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. All Board members and senior management personnel of the company have affirmed the requirements of the said code of conduct.

12 Audit Committee :

Consequent upon reconstitution of Board, the Audit Committee was also reconstituted. The Board of Directors in their meeting held on 31st March, 2011, reconstituted the Audit Committee comprising of 3 Directors viz. Mr. Paresh Saraiya, Mr. Milin Mehta and Mr. Pranav Parikh. Mr. Paresh Saraiya is Chairman of the Audit Committee. All the Directors in Audit Committee are Non-Executive Independent Directors. The Committee, in its meeting held on 2nd May, 2011, 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.

13 Auditors :

M/s. K.S. Aiyar & Co., (Firm Registration No. 100186W) 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 the various operational areas of the Company.

14 Cost Auditors :

The Central Government had directed to Alembic Limited that an audit of Cost Accounts maintained by the Company relating to Bulk Drugs and Formulations for the year ended on 31st March, 2011 be conducted by Auditors with qualification prescribed in Section 233B(1) of the Companies Act, 1956. Consequent upon demerger, the bulk drugs and formulations manufacturing units are transferred to the company. Accordingly, the Board had appointed Mr. H. R. Kapadia as Cost Auditor for the year ended on 31st March, 2011.

15 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. Your Company has created people practices which enables it to attract and retain potential talents. Employee relations in your Company continues to be cordial and harmonious.

16 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 preparation of the Annual Accounts, 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, 2011 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, 2nd May, 2011

ANNEXURE A

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Perspective vis-à-vis Company

The Indian Pharmaceutical Industry has been largely resilient to the economic challenges. The Global Pharmaceutical Market is expected to grow between 5 & 7% in 2011. Indian Pharmaceutical industry grew at healthy 18% in last year and is likely to sustain current growth momentum (14-15% versus historical run-rate of 10-12% over FY09-10).

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 at 18-19% versus the current industry growth of 15% (MAT March 2011).

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. The Pharmaceutical Industry continues to remain fragmented and competitive especially due to increased genericisation. Global pharmaceutical market intelligence company IMS Health believes the Indian generic manufacturers will grow at a faster clip as drugs worth approximately \$170 billion will go off patent in 2015. 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.

The company continues to make investment in the domestic branded business, particularly with the newer specialty segments. The Company has also renewed its focus on penetrating rural segment which we believe will be the next growth driver for us. The positive impact of the restructuring undertaken in the recent years is evident from the fact that company registered 19% growth in primary numbers in FY 10-11.

INTERNATIONAL BUSINESS :

Alembic's export formulation business to regulatory markets of US, Canada and Europe recorded a stellar performance during the year to reach turnover of Rs. 174 crores and registered 70% growth over last year. During the year Company launched 3 ANDA's in USA market. The Company has filed 38 Abbreviated New Drug Applications (ANDAs) and 53 Drug Master Files (DMFs) and received approvals for 15 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.

FINANCE :

The Company has registered a standalone total income of Rs. 1164.92 Crores for the year

under review. The standalone Profit, before providing for Interest, Depreciation, Non-recurring Income, expenses and Taxes, was Rs.155.73 Crores for the year under review. The Company has made a standalone profit after tax of Rs.81.50 Crores for the year under review.

The Company has registered a consolidated total income of Rs.1202.04 Crores for the year under review. The consolidated Profit, before providing for Interest, Depreciation, Non-recurring Income, expenses and Taxes, was Rs.160.25 Crores for the year under review. The Company has made a consolidated profit after tax of Rs.85.39 Crores for the year under review.

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 diseases 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 / DMF's 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.

HUMAN RESOURCE INTERVENTION IN 2010-11 :

Success of a growing organization is the resultant endeavor of a dedicated team setting stretch targets to push prospects for advancement. The potential and ability to deliver consistently is evident from the consistent growth of your company.

Your directors appreciate the valuable contribution of its employees towards the progress we report every year. This year, amongst other initiatives, a newly designed talent screening workshop greatly helped recognize internal talent more systematically, as also a competency grid administered jointly with line functions strengthening selection processes. Conscious investment on training and development continue to enhance competency levels to foster a performance driven culture. As always, performance orientation, innovation and meritocracy remain high priority areas, and your company continues to afford an enabling work environment and opportunities for career advancement. Industrial relations at Alembic too continue to be harmonious.

ANNEXURE A

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. ETP upgradation was done with a capital investment of around Rs. 125 lacs.

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. Tree plantation across premises and factories.
- d. Safety Infrastructure enhanced by addition of auto control systems.
- e. Conducted employee motivation and participation programme for EHS.
- f. Efforts continued for reduction / recycle / reuse of waste.
- g. Energy conservation measures taken.

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) Energy Conservation measures during the year under review

- 1) Installed Transformer with on Load tap changer (17 Tap position) by replacing off load tap changing Transformer (5 Tap position) to increase the voltage level in summer seasons and to reduce DG Set Diesel consumption in case low voltage supplied by State Electricity Board. Apx. Cost saving Rs. 4.52 Lacs/year.
- 2) Installed around 80 nos. CFLs in stores area of rating 100 Watt each by replacing 250 Watt high Pressure Lamp.
- 3) Savings of Electrical Energy by doing interlocking of Cooling Tower with Digital Temperature Controller.
- 4) Reutilization of Purified Water in cooling towers and Boiler. Liquid washing Purified Water collect and pumped back to feed cooling tower and Boilers.
- 5) Reutilization of Condensate of steam and feed back to boilers to increase the F temperature of Boiler Feed Water.
- 6) Avail cheap power through power trading from IEX. Upgradation of transformer, CTBT in line with requirement of power trading corporation.
- 7) Started using 50 HP pump in place of 60 HP pump at SR tower.

(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) Reduction in use of DM water in Cooling Tower and Boiler.
- 2) Saving of Chemicals used for treatment of water.
- 3) Reduction in HSD consumption by 6-7 Liters/Hr.
- 4) Effluent Treatment Plant load reduced by reutilization of Purified Water and Steam condensate.
- 5) Saving in power cost.

Efforts made in technology absorption:

Form B enclosed.

1. The Export sales were Rs. 360.48 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 :

(Rs. in Lacs)

For the Period ended on 31st March,	2011
Income	36,048.49
Export (FOB basis)	
Expenditure	
Raw Materials (CIF basis)	17,882.18
Packing Material ,Components and Spare parts (CIF basis)	435.14
Professional and Consultancy Fees	133.39
Interest	60.45
Foreign travelling	102.22
Commission on Export	860.48
Subscription, Publicity and other matters	811.02
Salary	444.15
Rent	34.55