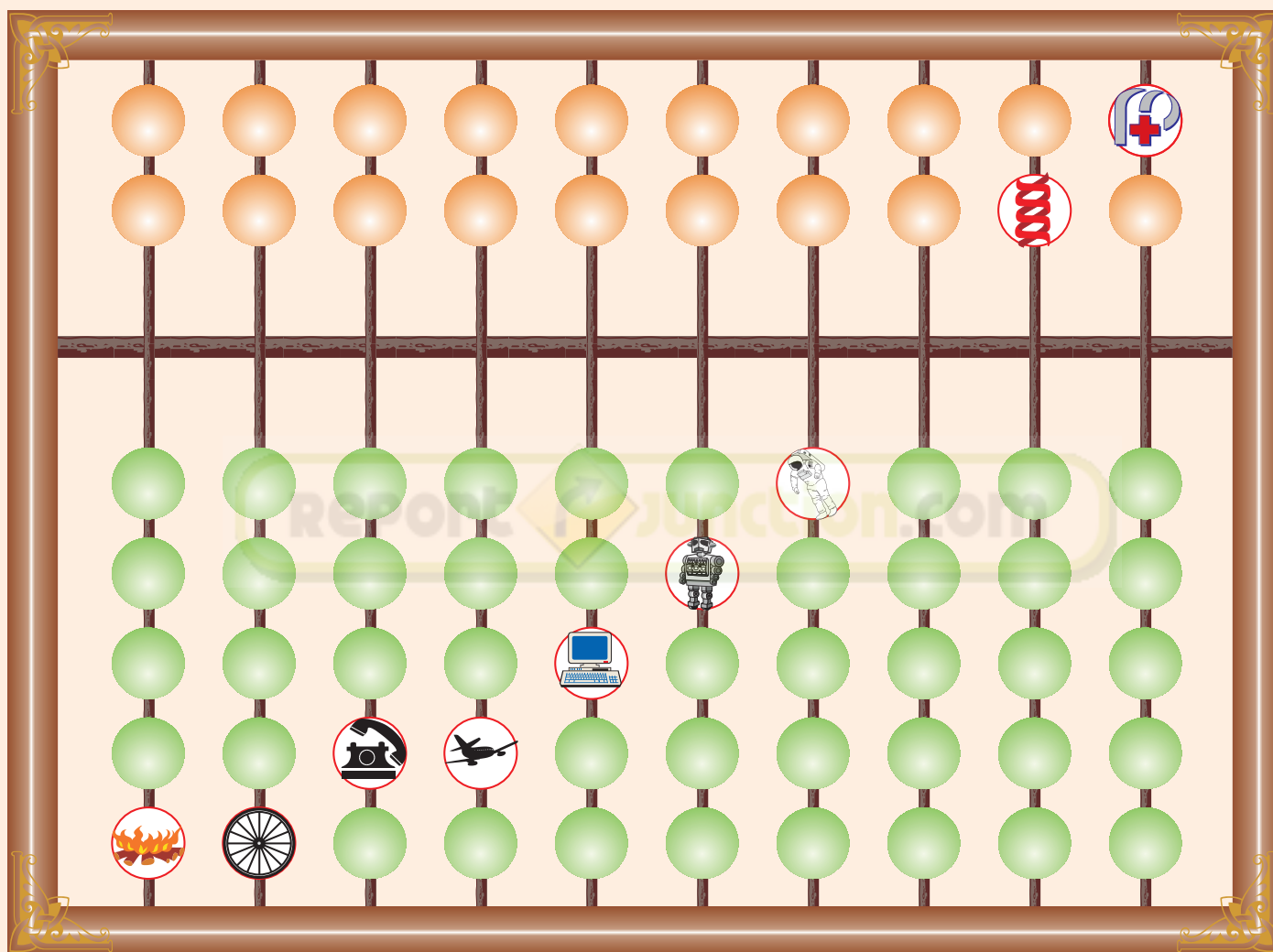


13th Annual Report 1999-2000

Creating change



to create value

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	On the cover
	<p>It all started many years ago. Change has been part of the evolutionary process, and inherent in all of us and in everything that we do. Yet, what remains as success are only those that were planned and initiated. Wherever change has been piloted and managed, the result has been a success.</p> <p>The theory of evolution takes us through achievements like creation of fire and wheel, right through the gamut including a machine that defied gravity as the aircraft did or the marvel called the wireless. Mankind has moved through creating instrumentation, computers, robotics all of which helped land the man on the moon. All a guided effort. Now, we have the genome theory that will help understand what makes the gene tick. Advances that have taken us forward.</p> <p>Aurobindo is part of this process. Creating change, to create value. Managing to bring out the best that all its stakeholders look forward to. Year after year. The process is on.....</p>

The change is on. Aurobindo Pharma is taking giant strides. The transformation process is in progress. The big picture is emerging.

Yes, Aurobindo Pharma, the one time single unit, SSI undertaking has turned yet another corner. Not only that, it is now straddling the bulk drug industry. The Company is on a fast track like never before. There is no parallel. Scorching pace, stunning numbers, huge volumes, phenomenal turnover and decent profits are creating incredible records.

It has been possible only because Aurobindo realised the ground realities, and went about destroying all the myths in the industry. The Company showed resilience, created strategies to overcome problems and irritants, and took advantage of the competitive situation to dominate the bulk drug scene.

The Company also realised that this is a volume sensitive industry. It meant that Aurobindo had to be responsive to everything - quality, ensuring customers got what they want when they need, at prices that were competitive. This also meant tremendous amount of home work, whether in procurement, scheduling, production, cost control, and, in short, everything that matters.

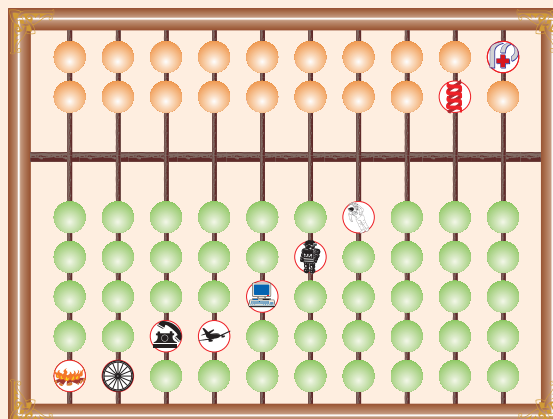
Aurobindo geared itself for survival, profit and growth in all transactions.

Created opportunities and converted them to production, sales and profits. Showed that bulk drug industry is profitable if one remained focused and climbed to leadership.

The efforts have been worth the while. The giant strides taken so far makes Aurobindo one of the fastest organically growing pharma companies.

It is ready for the next step. Aurobindo is creating change both within and outside. The organisation is turning professional, going global and is aiming for the regulatory markets. Becoming the largest player in bulk drugs. Carving a decent niche for itself in the formulations sector, only in segments that build on the competitive advantage of the Company.

Not just by arithmetical progression and well beyond re-engineering. To achieve industry leadership. To be the most valuable company in the industry. In short, **creating change to create value.**



LETTER TO SHARE OWNERS

Striving to Achieve *the Right Balance*



Dear Share owners,

As you are aware, your Company has reported one more exciting year. You would notice from this Annual report, the Company has performed well and reciprocated your trust on the Board and the management.

I am pleased to advise that we will strive to meet your expectations and hope to continuously enhance share owner value. It is a promise, to be consistently achieved year after year.

I would like to share a few thoughts on the processes that we are adopting to improve and strengthen your Company's fundamentals. The changes that we are creating will also ensure organisational renewal.

Our effort in this regard, is a three fold exercise. Firstly, we are building on our bulk drug portfolio covering different therapeutic segments.

One thing is certain. We will remain focused on bulk drugs, our area of core competence. We will build on this edifice, and straddle the market. We have all the strengths and advantages to fashion a very strong presence.

Secondly, exports are being given a renewed thrust. The characteristic feature of this initiative is to have a significant presence in the high margin regulated markets. A strategic move is being made by having manufacturing operations through joint ventures and subsidiaries in select locations in Miami (USA), Hongkong, China, Thailand and Brazil. The Company is determined to enter the premium markets and is working on achievable targets. Of course, we have built in a stretch for reaching volume, turnover, profit targets, and hope to cross them in an ambitious time frame.

Our third engine of growth is the entry into the formulations sector. We have identified segments of the market where Aurobindo can make an impact. The advantage that the Company already has in the bulk drug industry will be used to build a portfolio of products, as well as become competitive. Not only will our quality match the best in the industry, but we will remain cost effective.

Cutting edge of Aurobindo will be the core competence built on solid foundations in its bulk actives business, and will be further developed, backed by strong R&D in its formulations business.

All this means that simultaneous attention is paid to both hard and soft issues. Resources have been ensured, with dedicated amounts earmarked. Two of our plants near Hyderabad are being especially designed to cater to the very best international standards. The requisite skills have already been positioned and standard operating procedures are being tested out. No compromises are being made.

Resources alone do not determine our progress or destination. Financial strength must be matched by strength of character. At Aurobindo, we strive to strike the right balance. Our people are sincerely committed and do persevere, to deliver sustainable results, and achieve long term objectives.

The Company has the ability to absorb international technology. We have professionals conversant with it, and who can deliver for both domestic and global markets.

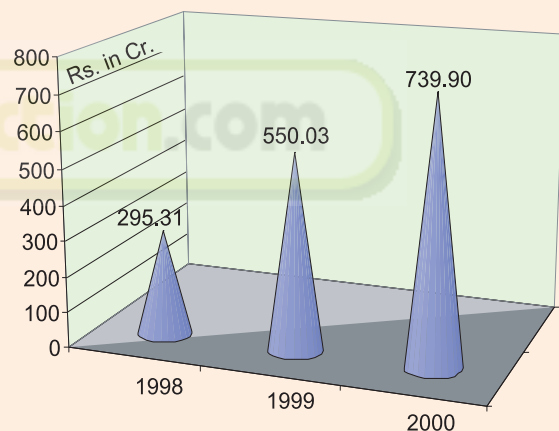
Anticipating needs of the future, we are constantly looking at our business models and are taking a holistic view of the Company and its opportunities. This helps prepare a focused road map. Having decided what is in the interest of the Company and its share owners, we are moving full steam ahead.

Aurobindo is changing gear. We have a formula for the future. We will ensure that we are winners all the way.

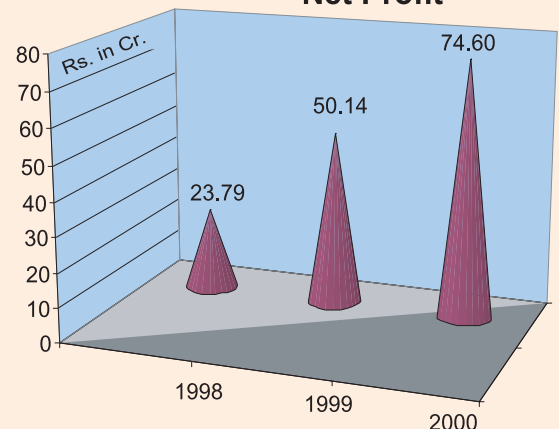

P V Ramaprasad Reddy
 Managing Director

Cutting edge of Aurobindo will be the core competence built on solid foundations in its bulk actives business, and will be further developed, backed by strong R&D in its formulations business.

Turnover



Net Profit



The Change *Process*

Aurobindo has been silently making an impact. In places that matter. In things that matter. Especially the qualitative changes that have been made.

The transformation has been perceptible for some time and all the while there has been value addition to the Company.

The result, Aurobindo has steadily become one of the strongest players in the industry. Documenting the change makes it self explanatory.

From producing active pharmaceutical ingredients (bulk drugs) to vertically integrated products. From bulk supplies to steriles and its dosage forms. Now adding to the thrust into formulations.

From single product to a multi product company.

From a small scale unit to a technology lead growth company, with advanced state-of-the-art manufacturing units meeting cGMP standards and WHO requirements.

From low value added items like semi-synthetic penicillin to more value added products like cephalosporins.

From a local player to a Company with excellent marketing network. The customer list would be the envy of any manufacturer, with some of the best names in the industry.

Technology lead growth company, banking on its own R & D centre to meet the challenges of post-GATT era.

From oral cephalosporins to sterile cephalosporins. With a portfolio of offers like anti microbials, anti ulcerants, macrolides to the latest generation antibiotics.

From being a domestic player to supplying global markets.

Steps being taken to obtain recognition from US FDA. Filing process patents, better known as non-infringement process patents, to get a foothold in the competitive international markets.

Maintaining leadership in most of the products, especially in all its major runners like the semi synthetic penicillin (largest producer in India and Asia and the fourth largest in the world). The Company has the largest production capacity to manufacture sterile cephalosporin in Asia.

Basket of products across the spectrum. Largest sterile facilities. Wherever it has entered, Aurobindo has straddled the market, with clear cut strategy successfully implemented.

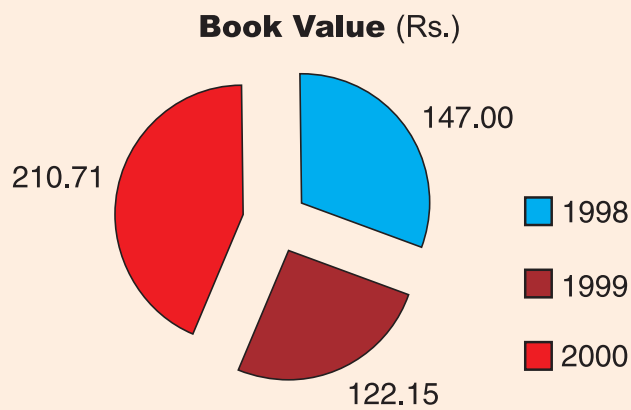
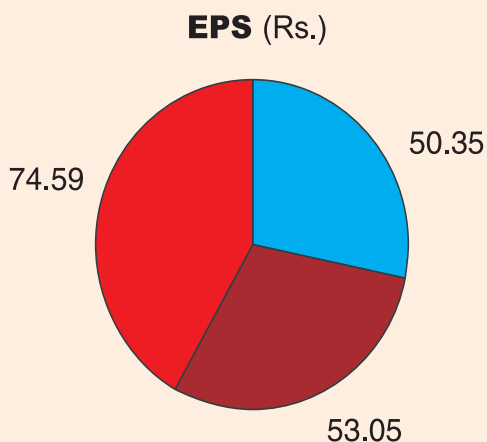
Now, increasing presence in the international markets, especially the regulated markets.

In the past, the Company had overseas offices for marketing and warehousing arrangements. Now, Aurobindo is in the process of setting up manufacturing facilities abroad consequent to the joint ventures signed. More are on the anvil. Becoming a multi-locational global company.

Internal structures are undergoing change, as well. The Board of Directors has been broad based with induction of industry trained professionals. Down the line more professionals are being recruited with national and international experience. Corporate governance standards are being put in place.

Conforming to international accounting standards and practices including disclosure norms in line with Generally Accepted Accounting Principles. Utmost financial discipline maintained from the very top to the last rung of the hierarchy.

The list could go on. But more important, the list is being created. And added to, with a regularity. The process of change is on. **Changing to add value.**



Management's *Discussion* & *Analysis*

The Financials

The Company had another exciting year. The growth chart was maintained at a cracking pace, and more important, a road map for the future was created.

- ★ The turnover reached an all-time high of Rs.739.90 crore. This is a growth of 34.5 per cent over the previous year.
- ★ Net profit at Rs.74.60 crore, another all-time high, is a stunning 48.8 per cent growth over 1998-99.
- ★ The net worth of the Company reached Rs.210.71 crore, an improvement of 82 per cent over the previous year. Another peak.
- ★ All the banks in the consortium have given the best rating to Aurobindo while extending credit facilities to the Company. ICRA have reaffirmed their highest rating of A1+ to the Company's Commercial Paper Programme and reaffirmed the LAA rating to the NCD programme, indicating high safety.

- ★ The Company has a tight control over costs. The result, net profit margin improved as in earlier years:

(Per cent to turnover)

1997	1998	1999	2000
5.74	8.06	9.11	10.08

- ★ The steady increase in the margins is also a reflection of both, the premium that the customers are willing to pay for the products as well as productivity improvements being put through in the operations. It also represents the shift in the product profile, with a larger share of high value drugs.

ABRIDGED PROFIT & LOSS ACCOUNT

(Rs.in Crores)

	1997-98	1998-99	1999-00
Sales	295.31	550.03	739.90
Other Income	1.48	2.79	3.59
Gross Profit (PBDIT)	39.85	78.72	116.54
Interest	11.87	17.10	25.23
Depreciation	2.22	6.29	9.52
Tax	1.97	5.19	7.19
Net Profit	23.79	50.14	74.60

- ★ Improving profitability is also a function of the increasing throughput volumes. The table below shows the production volumes done in the last two years :

	1999	2000
Bulk actives (MT)	4788	6976
Tablets & capsules (Lakh)	1,307	2,713
Syrups (KL)	44.51	75.06

- ★ Increasing margins on larger volumes, in a market well accepted by the customers are the best fundamentals of the Company. The bulk actives segment of the Company has shown a perceptible improvement. This gives confidence to look ahead with optimism.

- ★ The cash profit generated was Rs.84.12 crore. This is up from Rs.56.43 crore, in 1998-99, showing a growth of 49 per cent. The cash EPS for the year was Rs.84.

- ★ Net EPS for the year was Rs.74.59, about 48.8 per cent better over the previous year.

- ★ The quality of profit that the Company is reporting would need mention. There are no deferred revenue or miscellaneous expenditure held without write off. All revenue expenditure are charged against profits, and only tangible assets are capitalised. The Company is conservative in its accounting and all prudential norms are adhered to.

ABRIDGED BALANCE SHEET

(Rs.in Crores)

	1997-98	1998-99	1999-00
Fixed Assets			
Gross Block	59.98	102.22	154.80
Less: Depreciation	5.30	11.52	20.90
Net Block	54.68	90.70	133.90
Investments	1.08	1.86	2.40
Current Asset, Loans & Advances	140.56	252.84	319.22
Less: Current Liabilities & Provisions	56.01	110.01	94.52
Bank Borrowings (incl. CP)	30.77	38.09	51.96
Net Working Capital	53.78	104.74	172.74
Net Tangible Assets	109.54	197.30	309.04
Less: Secured Term Loans	32.88	54.86	61.51
Unsecured Loans	7.21	18.01	27.82
Net Worth	69.45	124.43	219.71
Represented by			
Share Capital			
- Equity Shares	4.72	9.45	10.00
- Preference Shares	0.50	9.00	9.00
Reserves & Surplus	64.83	106.28	200.71
Total	70.05	124.73	219.71
Less: Misc. Expenditure not written off	0.60	0.30	0.00
Net Worth	69.45	124.43	219.71
Net Worth (excl. Preference Shares)	68.95	115.43	210.71

Product Portfolio

Aurobindo Pharma is a fast track bulk drug manufacturing company with a strong presence in the semi-synthetic penicillins, and high value added products like cephalosporins, quinolones, macrolides and other bulk actives segment of the Indian pharma industry. The Company has fast moving drugs in this category including ampicillin, amoxicillin, cloxacillin, cefalexin, cefradine, cefadroxil, cefotaxime, ceftriaxone sterile and a host of other products. The Company is vertically integrated from bulk actives, through intermediates and formulations.

The Company accounts for approximately 10 per cent of the global output of ampicillin. Similarly, it manufactures and meets 6 per cent of the global demand for amoxicillin.

The Company's product portfolio will continue to be dominated by bulk actives. The corporate plan envisages attaining leadership position in this area of core competence. In the near future, an impetus will be given to this effort by seeking recognition from the global regulatory authorities.



A view of the production area

At the same time, Aurobindo will increase its presence in the formulations market steadily. The Company recognises its strength in select segments and will remain market driven. Opportunities are being seen in catering to the psychiatric, diabetological, gastroentrology and neuro segments of the market.

The strategy in the formulations market will be to gain foothold in segments where the Company can ensure value added sustainable business in the long run. Aurobindo will take care to avoid being a 'me-too' supplier. Acceptance level from the medical profession for the brands so far introduced gives confidence that this business will add to the strength of the Company and help earn a decent return on capital employed.