

Delivering on promises

Annual Report 2005-2006

AUROBINDO PHARMA LTD.

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We have constructed a solid strategic foundation. The business is organised to remain close to the customers, sharing products, values and best practices. This is leveraged on high-level researchers and technology combined to provide world-class performance, unbeatable value for money and the ability to deliver large basket of products.

This did not happen overnight. It came out of a commitment to excel at the best markets. They were not mere promises, but a passion to make an impact in the most competitive markets.

Our businesses are performing well. We are working for strong growth, and shall sustain the momentum.

We shall sharpen our focus on international expansion, even as we consolidate and build on the strengths of our base business in the domestic and emerging markets.

Aurobindo is a high-energy pharmaceutical company and the vibrancy in the organisation gives confidence to make fresh commitment to deliver. To deliver the Earth for our customers, shareholders and in fact, all our stakeholders.

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Delivering on promises

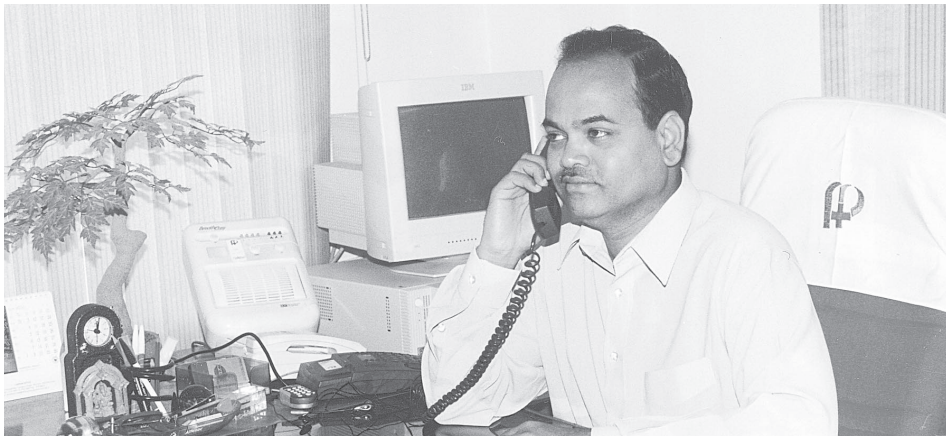
Message from the Chairman

Dear friends,

We at Aurobindo have been actively creating a platform for growth. We pursued a well-laid road map and added to our marketing reach. In particular, we made a strategic entry into the regulated markets of US and Europe. We ensured that we had a marketing strategy and a large number of regulatory approved APIs and formulations.

We made a good beginning and I am happy to report that many of the initiatives undertaken in the recent past to scale up the organization have started to bear fruit. Both in US and Europe, we have started executing repeat orders. Equally significant was our being part of the prestigious PEPFAR program initiated by the Government of USA.

We had planned well; we knew our strengths; were clear on where we wanted to go; what we wanted to deliver; were sure of our milestones and the efforts that we needed to put in to make things happen. We did as well as we planned and navigated through challenging circumstances and environment.



BOTH IN US AND EUROPE, WE HAVE STARTED EXECUTING REPEAT ORDERS. EQUALLY SIGNIFICANT WAS OUR BEING PART OF THE PRESTIGIOUS PEPFAR PROGRAM.

Since we did a calibrated entry into such markets, our learning cost and lag-time was lower. We had sized up the breadth and depth of the market, we are better positioned to deliver larger volume and service wider boundaries.

Our Members are aware, that we at Aurobindo have been a dominant player in the domestic API market and a significant player in the less regulated markets. This is a strength that we have earned over many years. Our endeavor is to retain this leadership position in the base business, and make inroads into the regulated markets.

FY06 was characterised by severe competitive pressure, shortage of raw materials, higher input costs and challenges latent in entering some of the most quality conscious markets. We needed to be better than market expectations, and I am glad to share with you, that the professional team at Aurobindo anticipated and

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AUROBINDO'S STRENGTHS ARE ITS ABILITY TO OFFER WHAT THE CUSTOMERS WANT AND BE THE LOWEST COST PRODUCER.

worked to a game plan. We found it much easier to market our products, at affordable prices.

Aurobindo's strengths are its ability to offer what the customers want and be the lowest cost producer. We give them quality that they want, service them especially with delivery deadline, and meet the needs of customers at prices that give them value. We see long-term relationships, and plan to tie up with some of the best names in the industry.

It is a matter of pride for us that two of our ARV products coupled with the analytical methods are becoming the basis for the USP monographs. A few of our talented scientists have been recognised by awards and citations by industry associations. Indeed, Aurobindo has some of the best skills in the industry, especially in critical functions such as research, manufacturing and marketing.

We are working towards revenues of half-a-billion in FY07 and one billion in three years, designated in dollar terms.

Going forward, the Company has the clarity of its future revenue flows and has the capability to protect and improve margins. We have mapped with milestones our future course of managing market needs and are progressively improving the presence of our products.

Over the years, Aurobindo has taken care to keep its commitments, and deliver better than what was earlier estimated. Our team has gained strength and has converted challenges into opportunities. Seen in perspective, we have delivered better to all our stakeholders.

Often, we have deliberated within the Company to take stock of our progress, as well as on what need be done. We have learnt from the market, from our own experiences, and in the process, have fine tuned our growth plans and momentum.

I shall share a few pointers which have helped us gain clarity in our business. Some of the basic questions that we ask ourselves include: Who are we competing? How would we succeed in a market made of leaders in the industry? What should we do to gain larger presence, market share, improved business mix and sustainable long-term growth?

We at Aurobindo believe that we are not competing against MNCs, innovators or other competitors. We believe those equipped to deliver better will demonstrate sustained long term growth.

My colleagues and I believe, our fight is against ailments, disease and ill-health. We work the same market with other players, and together we are challenging the spread of ailments such as HIV; providing support to patients to recover from diabetes, migraine, cardiovascular ailments; and help them with our drugs to control several lifestyle

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WE BELIEVE THE WINNERS WILL BE THOSE WHO ARE EQUIPPED TO OFFER EFFECTIVE PRODUCTS AT PRICES THAT ARE COMPETITIVE.

disorders. We have a stake in patients regaining their health.

While there are many players in the same market, with similar facilities, manufacturing systems, product approvals and skill sets, we believe the winners will be those who are equipped to offer effective products at prices that are competitive.

This is where we are distinctive and different. Aurobindo is backward integrated, manufactures most of the APIs that go into its formulation products; and, in many instances, manufactures the key raw material as well. Aurobindo straddles the value chain.

We bring to the market, consistency of products, reliability of sources, ability to produce at shorter time-lag and cost effectiveness. We believe this competitive edge will be maintained and improved upon as we gain stronger foot-prints in the markets.

Our endeavor as in the past, will be to remain the most cost effective producer of the best pharmaceutical products, gain volume and market share and be a dependable resource for patients and medical fraternity.

We believe our efforts will lead to sustainable growth of the Company and wealth creation for our stakeholders. Our portfolio of investments, assets, capacities, products and people talents are reassuring, and we at Aurobindo

OUR VISION

Aspire to be a leading provider of pharmaceuticals to both brand and generic pharma industry

Shall achieve it by creating a competitive advantage in chemistry through innovation, cost structure and constructive partnerships.

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have set short and long term targets. We are working towards revenues of half-a-billion in FY07 and one billion in three years, designated in dollar terms.

We are committed in this mission and shall deliver results that will exceed expectations. I look forward to the future with confidence.

Warm regards

P. V. Ramaprasad Reddy
Chairman



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Leadership in chosen segments

Steriles	Betalactams	Anti-virals	Life style drugs
Market size: US$ 6.1 bn	Market size: US$ 6.1 bn	Market size: US$ 6.6 bn	Market size: US$ 110 bn
A high margin segment	Strongest player with economies of scale	Full range of portfolio	Broad portfolio in immediate release and sustained release generics
Protected by entry barriers	Larger capacities and better cost structure than any competitor	US FDA approved API and finished form facilities	Both plain and combination products
IPR capabilities, vertically integrated product base and process add to strengths	Vertically integrated and a leader in the category	Aggressively participating in PEPFAR	Strong pipeline to balance portfolio in developing markets
Strong portfolio of 27 products	Competitive cost structure	Large basket of 17 products	Large manufacturing capacities to meet single umbrella needs of global distribution
	Offer potential for global outsourcing		

Most ANDAs are sourced from Company's DMFs

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Executing strategies and making an impact

From the desk of the Managing Director

Each quarter was better than the earlier one. We did significantly better on every measure - entered into newer markets, delivered larger volumes, improved top and bottom lines and recorded higher operating margins. In every activity we progressed as planned.

For instance, we submitted larger number of ANDAs, received expeditious regulatory approvals, commercialised more products for the US & European markets, and more important, participated in the prestigious PEPFAR program.

The Company's strength has always been manufacturing cost effective active pharmaceutical ingredients (APIs). We leverage this capability to produce generic formulations for the regulatory markets.

We are vertically integrated, and we do add value end-to-end. Our dynamics are different as compared to competition. We offer products at competitive prices, and the "speed-to-market", or the ability to cut short the time between developing a product, get it registered and commercialise it, is one of the factors that gives us a distinctive advantage.



THE "SPEED-TO-MARKET" IS ONE OF THE FACTORS THAT GIVES US A DISTINCTIVE ADVANTAGE.

These are powerful drivers, especially while entering markets which have leading players in the industry. Our scaling up to make meaningful presence in regulatory markets, as well as the fast tracking with hardly any time loss between product approvals and their launch in the addressable markets, has now created a healthy platform for much stronger foray of newer products.

Members are aware, we at Aurobindo were confident of participating in the global attempt at making available larger volume of antiretroviral products to help HIV affected people. The Company successfully bid and became authorised vendors to the US

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government sponsored PEPFAR program. Supplies commenced during the year, helped mainly by the fact that Aurobindo has system inspected manufacturing facilities, large basket of approved products and the ability to respond fast with the experienced in-house scientists.

Aurobindo's large product mix makes it convenient for organisations such as UNICEF to source their supplies of ARV products from us. Its a single window resource to procure drugs for many institutional customers.

While our ARV products got fresh momentum, we maintained our focus and grew in segments such as CNS, SSP and semi-synthetic cephalosporins. Efforts made were successful because of the strong basket of products, potential opportunities and existing relationships with customers, both in international and domestic markets.

While the business mix improved and duly got reflected in the financials, we have challenges in the profitability of some of the overseas production branches. In particular, our ventures at China are yet to reach optimum viability. We are confident that the volume and prices would improve, while the cost of production can be reigned in. Considerable managerial efforts are being made to improve the economics of the units under pressure.

We have acquired a marketing outfit in U.K. and a US FDA approved manufacturing facility in U.S.A. which gives us a platform to accelerate growth.

Capacity utilisation at our API production units have been consistently improving. We are working to de-bottleneck some of

Every quarter... an improvement

Rs. Millions	Q1	Q2	Q3	Q4	FY06
Revenues	2842.4	3271.0	4169.7	4742.4	15025.5
PBDIT	266.3	291.0	661.5	827.8	2046.6
PBT	13.2	25.2	364.0	526.6	929.0
PAT	20.1	36.4	261.9	375.3	693.7
EPS (Rs.)	0.39	0.66	4.49	6.44	12.46

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THERE WAS GROWTH IN VOLUMES AS WELL AS IMPROVEMENT IN MARGINS, IN THE INTERNATIONAL BUSINESS. WE SEE THIS AS A RESULT OF OUR COORDINATED APPROACH, WHERE RESEARCH, PRODUCTION AND MARKETING ARE HORIZONTALLY INTEGRATED.

them, as well as exiting non-remunerative products. As business grows, the management will ensure capacities are adequate and optimise their utilisation.

The state-of-the-art formulation units were specially created to cater to regulatory markets, and with increasing demand from the markets, are now expected to move towards optimum utilisation. The economics of scale would be visible in the foreseeable future.

We hope to keep improving our volume sales, market share, revenues, operating margins and net earnings.

There was growth in volumes as well as improvement in margins, in the international business. We see this as a result of our coordinated approach, where research, production and marketing are horizontally integrated. Our ability to respond to the market, reach out to customers as well as meet their needs, offer affordable prices, and flexibility of operations has been enhanced. These strengths enable superior decision making process and better control of operations, which translate into better business and strong fundamentals.

R&D efforts were focused towards creating a product pipeline and obtaining regulatory approvals. The large basket of non-infringing process patents would further enhance the ability of the Company to widen product portfolio.

It is a matter of pride that global investors participated and helped us place two FCCB issues, one for US$ 60 million in August 2005 and another for US$ 200 million in May 2006. We are particular that the funds are best utilised to gain strong foothold for our products in the premium markets.

We have acquired a marketing outfit in U.K. and a US FDA approved manufacturing facility in U.S.A. which gives us a platform to accelerate growth. We shall continue to pursue similar opportunities, in the best interest of Aurobindo.

We shall progress with caution. Operational excellence will be matched by our focus on compliance standards, adherence to EHS norms and raising the bar on system implementation. Our ERP system is dynamic, and fine tuned to protect, assist and reflect the business.

More than ever before, we remain very confident about the future of Aurobindo. Following our vision, we will master the challenges ahead of us. We shall pursue success since

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