

*“The financial year 2009 – 10 has been the year of consolidation of our strengths in the international markets. Our efforts have opened up new avenues for increased growth. We have firmed up our blueprint for the next five years to enhance the shareholder’s value.”*

*Bafna Mahaveer Chand  
Chairman & Managing Director*



## **Bafna Pharmaceuticals Ltd.**

*Wellness beyond boundaries*

**15<sup>th</sup> ANNUAL REPORT**

**Financial Year 2009 - 10**



Inauguration of F R&D facility by  
Shri Amit Patel, Managing Director, Auden Mckenzie Groups, UK  
accompanied with  
Shri Mike Nithavrianakis, British Deputy High Commissioner to Southern India  
Shri Dhiru Somaiya, Managing Director, SOMEX PHARMA, UK  
Shri M Bhaskaran, Director of Drugs control, TN  
on 26<sup>th</sup> April, 2010.



ISO Certified Quality control lab at Grantlyon facility

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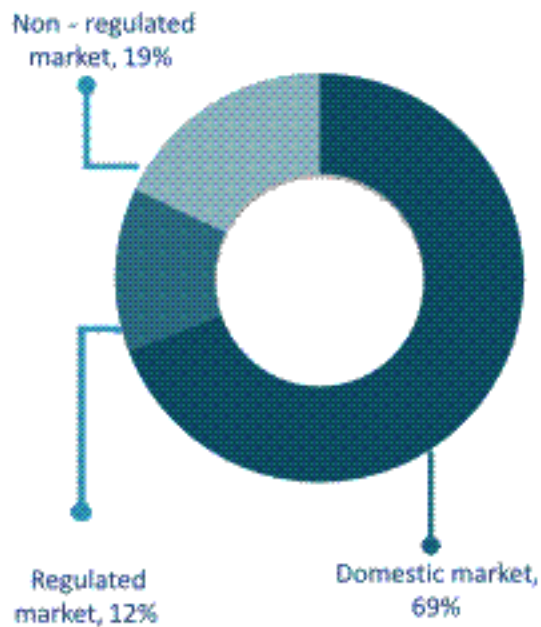
## Disclaimer

Statements in this annual reports appearing in some sections including “From the Desk of Chairman and Managing Director” and “Management Discussion and Analysis” describing the Company’s objectives, projections, estimates, expectations, plan or predictions or industry conditions or events may be “forward looking statements” within the meaning of applicable securities laws and regulations. Actual results, performance or achievements could differ materially from those expressed or implied. Important factors that could make a difference to the company’s operations include global and Indian demand supply conditions, finished goods prices, feedstock availability and prices, regulatory approvals for the product applications and competitors’ pricing in the company’s principal markets, changes in Government regulations, tax regimes, economic developments within India and the countries within which the Company conducts businesses and other factors such as litigation and labour unrest or other difficulties etc.,. The Company assumes no responsibility to publicly update, amend, modify or revise any forward looking statements, on the basis of any subsequent development, new information or future events or otherwise except as required by applicable law. Unless the context otherwise requires, all references in this document to “we”, “us”, “our” or “your” refers to Bafna Pharmaceuticals Limited (The Company).

# Key performance highlights

## Revenue mix by geographies

In INR lakhs



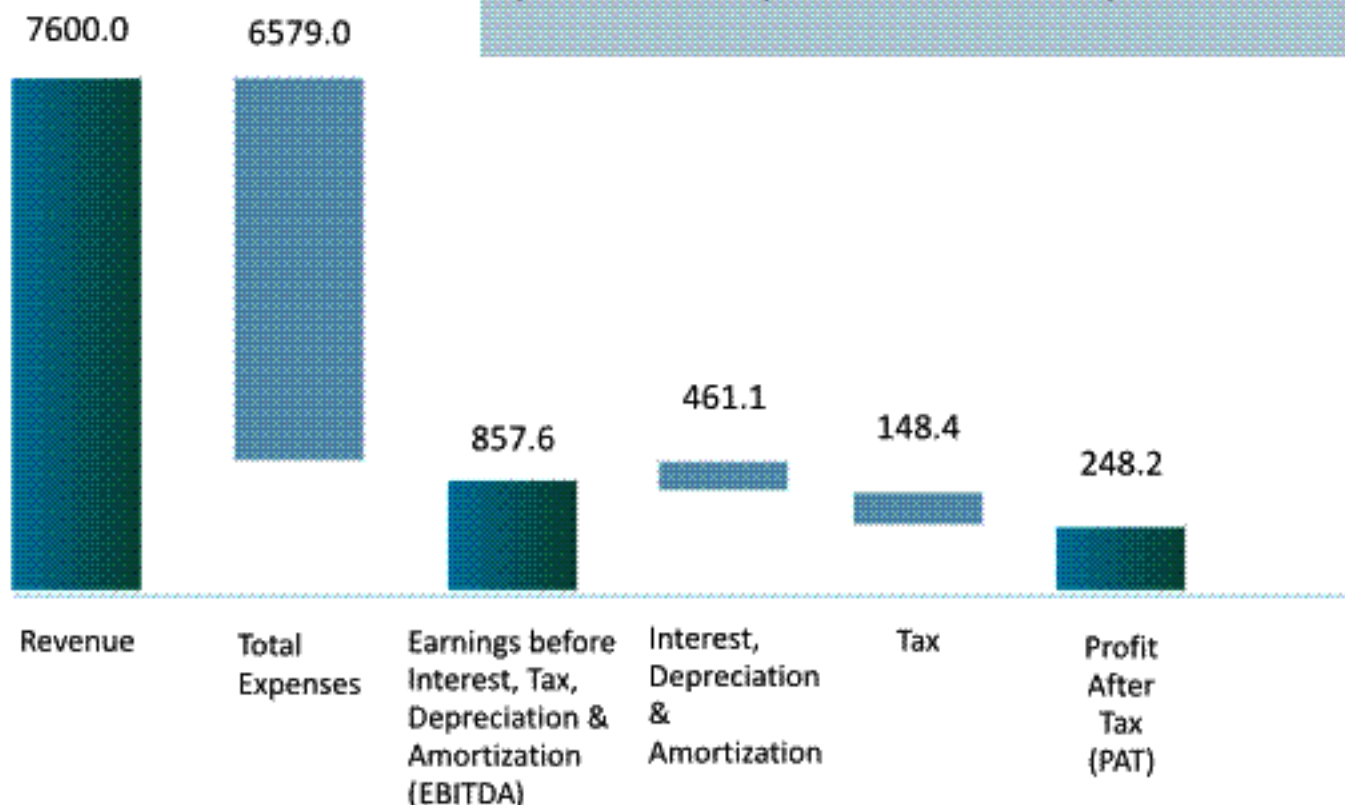
### Value Growth

The total revenue achieved by the company is Rs. 7600 lakhs. The company's revenue from UK market is Rs.891.3 lakhs during Financial Year (FY) '10, a 700% growth compared to the revenue from the same market in FY 09. This signifies the shift in company's focus towards high margin markets. The revenue share from this market has grown from about 2% of the total sales during FY '09 to 12% during FY '10. The Company plans to maintain and grow on this high margin growth trajectory

### Value Growth

Bafna Pharma has achieved impressive Year-over-Year (YOY) revenue growth of 68%. The ratio of revenues from domestic and international market is around 70:30. The Earning before Interest Tax Depreciation and Amortization (EBITDA) & Profit after tax (PAT) margins were 11.5% & 3.3% respectively. The increase in the production of tablets was approx. 66% while the production of capsules was increased by 127%.

## Profitability Statement



## Company snapshots

<b>Name of Company:</b>	Bafna Pharmaceuticals Limited
<b>Incorporation:</b>	1995
<b>Initial Public offering:</b>	2008
<b>Total revenue:</b>	Rs 7600 lakhs
<b>Net Profit:</b>	Rs 248 lakhs
<b>Listing:</b>	Bombay Stock Exchange

### Registered Office

Bafna Towers  
No: 299  
Thambu Chetty Street  
Chennai – 600001

### Bankers

State Bank of India  
Leather International Branch  
Chennai

### Auditors

M/s. Abhay Jain & Co  
Chartered Accountants  
Room No.72, 3rd Floor  
4/16, Sunkurama Street  
Chennai – 600 001

### Share Transfer Agents

Cameo Corporate Services Limited  
“Subramanian Building”  
No.1, Club House Road  
Chennai – 600002

### Company Secretary

Shri K. R. Gurumurthy

## Factories

No: 13, S.V. Koil Street  
Madhavaram  
Chennai – 600 060  
India

147, Madhavaram Redhills High Road  
Grantlyon, Redhills  
Chennai – 600 052  
India

## Board of Directors – Brief Profile

**Shri Bafna Mahaveer Chand** is the Chairman and Managing Director aged 49 years, has over three decades of experience in the pharmaceutical industry. He is considered to be a doyen in the industry with in-depth know-how and expertise of all the faculties & operations of the industry. Thanks to his diligence and vision only, the company has transformed from a Limited company, to an emerging SME listed in BSE, credited with a facility accredited by UK-MHRA. Being an expert in managing both domestic institutional supplies and international business, his contributions in bagging supply contracts of the central government & several state governments of India, contract manufacturing deal from Johnson and Johnson Ltd, in winning Best Supplier Award from the Government of Sri Lanka, Gold Quality Excellence Award 2009 and in obtaining 336 product licenses, 80 product registrations globally, 11 site variation approvals from UK etc. are just a few glimpses of his success sojourn, at Bafna Pharmaceutical Ltd.,.

**Shri Paras Bafna** is the Executive Director in-charge of the Madhavaram manufacturing facility. His astute thinking and management skills are largely responsible for the smooth functioning of this facility. His innate understanding of emerging pharmaceutical market trends has helped us to advance technically by innovative methods.

**Shri V. Rajamani** is a greatly experienced and highly qualified member of the group, specialising in Financial Management and Company Accounts. Prior to joining Bafna Pharma, he has served as the Company Secretary & Chief Vigilance Officer of Manganese Ore India Ltd at Nagpur. He has acted as Additional/General Manager (co-ordination) and as the Director of M/s Neyveli Lignite Corporation in Tamilnadu. Presently he is engaged as a consultant Director of M/s Morgan Industries Ltd. in Chennai. He possesses over 25 years of service experience in the financial departments of various government establishments.

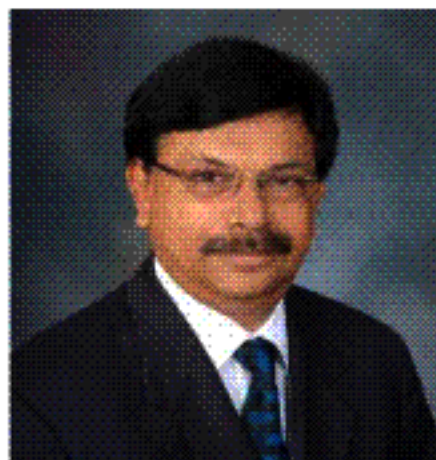
**Shri A. Sahasranaman** is a director par excellence; he is a top-level bureaucrat, a research scholar and an accomplished author. Having completed his Master's in Economics, he subsequently joined the Indian Administrative Service, Jammu & Kashmir Cadre and served from 1973 – 1996 under several strategic posts. Apart from this he reserves the distinction for having acted as the Executive Director, Council for Leather Exports – Chennai. He has lent his expertise to UNDP - Dept. of Industrial Policy & Promotion, Govt. of India. He resumed his tryst with Jammu & Kashmir by accepting an invitation by the state government to serve as the Principal Secretary, Dept. of Industries and Commerce from 2003 – 2005. Since July 2002, he is serving as the Honorary Director of Indian Leather Industry Foundation, Chennai chapter. In addition to his professional legacy, he is also a renowned author of several books and articles pertaining to the development & promotion of small-scale industries in India.

**Shri R. Dwarakanathan** possesses a Post Graduate Honors in Arts from Madras University and an MBA Degree from Wichita State University, Kansas, USA. Also, he has to his credit CAIIB, Diploma in Industrial Finance & Co-operation. His professional career began when he joined the State Bank of India. Over a period of time his dedication and managerial capabilities helped him scale-up to several high posts. Since his retirement in 2000, he is serving as a senior faculty in Loyola Institute of Business Administration, Chennai. In the course of his professional career he has specialized in various areas such as Financial Management, Corporate Credit, Foreign Exchange, Organizational Development, Inspection & Management Audit and finally Rehabilitation of sick units.

**Shri U. Sunil Bafna** is a dynamic, young professional leader looking to steer the company into new horizons in the days to come. He is a Graduate in Corporate Secretaryship from Madras University; later on he has completed a specialized course in Financial Management. He brings with him over 15 years of experience in functions of financial planning and management.

# Consolidation of strengths

From the desk of Chairman and Managing Director



Dear Friends,

*I am happy to share that your company has achieved a YOY growth of 68 % registering revenue of Rs.7600 lakhs. The year 2009–10 had been a year of self - introspection to analyse ourselves and consolidate our strengths in the international market. We have obtained products approvals in Africa & Commonwealth of Independent States (CIS) regions.*

We have drafted a blue print for next five years to propel the company towards the better revenue growth rate, greater realisation of margins and increased value to share holders. The plan is based on our fundamental strengths of production expertise and the market foundation that had been laid in both the regulated and non - regulated foreign geographies.

The company is poised to join the Rs.100 crore revenue club in the next financial year driven by the good export order book. In line with the philosophy of delivering optimum value from the assets, we propose to hive off the 'Formulation R&D' to make it an independent profit

centre by providing world class research services to other companies also. As you may be aware, we have inaugurated the exclusive 'State of the Art' facility in April '10 spanning across 5000 Square Feet (Sq. Ft) in our Grantlyon factory with a capex of Rs. 1200 lakhs.



Opening of F R&D facility by Shri Mike Nithavrianakis, British Deputy High Commissioner to Southern India

The company's future course of growth will be driven by three major initiatives as

1. Strengthening our CRAMS (Contract Research and Manufacturing Services) business by expanding our product portfolio and geographic presence in regulated markets that command better margins. This expansion will capitalise the optimum capacity utilisation of the European Union Good Manufacturing Practice (EU GMP) United Kingdom Medicines and Healthcare products Regulatory Agency (UK MHRA) approved facility.
2. Promoting the 'Branded Generics' (i.e., promoting the branded formulations that are already

approved in the regulated market to non - regulated market that commands better margins compared to the ordinary generic formulations) in non - regulated market that offer better value compared to that of our current portfolio of generics.

3. Building the brands both in domestic and non – regulated markets. Your company realises the potential of the domestic market that is growing at a healthy annual growth rate of 12 to 14%. To capitalise the buoyancy, Bafna Pharma has planned for the launch of branded formulations. We are planning for a roll-out of 24 products in the life style segment addressing the therapeutic segments like Diabetic, Paediatric, Cardio Vascular, Gynaecology etc., by August '10. In line with this initiative, the company has already launched OLMEBAF in Sri Lanka. It is to be noted that Bafna Pharma is the first company to launch this molecule in that country.



EU GMP UK MHRA approved Grantlyon facility

Some of the key highlights of your company's performance that reiterates our commitment to enhance the share holder's value are

- ⇒ YOY revenue growth of 68 %
- ⇒ YOY growth in PAT by 133 %

- ⇒ Number of product applications in pipeline for export – 81
- ⇒ Number of product approvals for export - 80
- ⇒ The new geographies explored for growth CIS & African countries

Our chartered path of growth will be towards exploring high margin business that will make Bafna Pharma scrip as one of 'to be watched scrip' within next five years.

I take this opportunity to thank the board of directors for their valuable guidance, management team for the unrelenting support and the fellow colleagues who are the major force but silent contributors behind our growth.

*'If everyone is moving forward together, then success takes care of itself'*

— Henry ford

The value progression of the company from being a successful Contract Research and Manufacturing Service (CRAMS) player to an integrated Pharma company creating value with brands underline the commitment of the management to make a mark in the Indian pharmaceutical industry.

I thank all the investors and stakeholders who have placed confidence on Bafna Pharma that inspires me and our team to drive the company to the greater levels of growth.

Warm Regards,

*Bafna Mahaveer Chand,  
Chairman and Managing Director*



# Management Discussion & Analysis

## Stabilising macro environment

There are good signs of positive growth rates, though mean in some cases, bringing cheers to the businesses across the geographies. The global financial crisis has helped to explore and reiterate some hypotheses with regards the growing Asia. Though Asian counterparts felt the pangs of the credit crunch and could not avoid the collapse of the equity markets, if one should have to go by the recent Gross Domestic Product (GDP) growth rates that are hovering around 5%, the decoupling theory that puts forth that the Asian growth story is not linked to the western economies, as it had been in the previous decades has some merit. It is true that the recent growth is spurred by federal stimulus packages, but the domestic demand and growth of the emerging nations also contributed to the recovery.

Important outcome related to India is that the country has proved that the economy is resilient pegging a healthy growth rate of above 7% driven primarily by service sector, domestic demand and infrastructural spends in to Gross Capital Formation. There are still some perils to growth in the form of fiscal deficit, supply crunch driven inflation and structural challenges for more inclusive growth. But, the relatively stable political environment, better diplomatic relations with foreign nations, mature private sector and increasing purchasing power parity are expected to propel the growth engine.

In general, the global macro factors have moderated the perception of the business houses about the economic outbursts and have made them prepared for facing surprises like that of Dubai realty bubble and Euro market crisis etc.

The factors like Macroeconomic stability, allocation of more funds for health care in stimulus packages and improving health care awareness among upwardly

mobile middle class are bringing good news to the Global Pharma industry, particularly to generics players.

## Global pharmaceutical industry

According to a Pharma Industry report by Pricewaterhouse Coopers (PwC), the global pharmaceutical industry is estimated to be US\$ 773 Billion (Bn) in 2008 with the key geographies like North America, Europe and Japan contributing to about 82% of the market. Few recent trends that define the global pharma market landscape more in favour of emerging economies are

1. Exploding generics market with about US\$ 28 Bn worth of drugs going off patent over next two years.
2. Increasing R&D cost and the pressure on price by various stakeholders to increase the affordable health care net.
3. Slowing growth in the key geographies and emergence of low cost producing countries like India and China in the global pharma market. Improving health care facilities spurred by both public and private investments compliments this growth in the emerging economies.
4. Shifting business model of the integrated pharma players towards a lean model by outsourcing key components of value chain paves way for the promising CRAMS market.
5. There is greater scope for growth in emerging markets since pharmaceutical spending is highly correlated to GDP growth and where the healthcare spending as a percentage of GDP is lower. So, the respective domestic markets of these economies themselves will offer more

market space and the export led companies will start looking inward.

Above factors contribute to the growth of generic players in the emerging economies comprised of Asia, Africa and Australia. The pharma market in these economies are expected to grow at a faster pace of a Compounded Annual Growth Rate (CAGR) above 11.5% for the period of 2008 – 13 compared to the current growth rate of above 9.5%, states a report by Daiwa securities group.

## Indian Pharmaceutical Market

A report published by PwC estimates Indian pharmaceutical market to be US\$ 11 Bn in March 2009 and is expected to grow 173 % in eleven years to become US\$ 30 Bn in 2020. The expanding middle class that has grown from mere 3% of the population in 1995 to 13% in 2005, and is expected to reach 34% in near future is a promising bet that will contribute to the growth in the domestic market.

Many international collaborations and the land mark deals like Ranbaxy – Daichii Sankyo and Nicholas Piramal Healthcare – Abbott transactions reiterates that there is an increasing focus in domestic market promising investor confidence.

Increased social spend of the government towards healthcare, the inflow of private investments and increasing awareness of medical insurance have expanded the health care net in the country.

### India Healthcare Facilities

Doctors	60 per 100000 people
Nurses	80 per 100000 people
Pharmacies	367000(urban) 183000 (rural)
Hospitals	30000 (67% public, 23% private)
Hospital beds	1.7 mn (one per 1000 people)
Health centers	171687 (including 145272 sub centres with basic facilities)

Source: Global Pharma looks to India - a PwC report

Inspired by promising domestic market, the export oriented Indian pharma players are now looking inward to tap the branded generics market.

The demand composition for drugs in the therapeutic segments has also changed due to changing lifestyles of the upwardly mobile population. The lifestyle drugs addressing the segments like Cardio Vascular diseases and Chronic disorders are significantly contributing to the sizeable share of the domestic market.

The success of the Indian players as quality suppliers of generics to the developed market at competitive prices, has contributed to the growth of CRAMS segment. This market is estimated to be around US\$ 605 million (Mn) in 2008 and expected to grow to be around US\$ 916 in 2010 (PwC report).

## Bafna Pharma's approach to the growth strategy

Subsequent to the listing of Bafna Pharma in Bombay Stock Exchange (BSE) in 2008, the series of initiatives like obtaining EU GMP UK MHRA approval for the Grantylon facility, revamping of the Madhavaram facility, launch of Formulation R&D facility in Grantylon and obtaining 11 site variation approvals from MHRA, UK are some of the critical milestones that guide the company towards not only greater revenue growth but also increased profit margins.

Bafna Pharma's focus on the European market, launching of 'Branded Generics' in non - regulated market and efforts to launch domestic brands in lifestyle segment are inspired by strong growth drivers.

