



Annual Report 2012-13

Bilcare Limited



Reconfiguring growth



Vision

Delivering Innovation - Touching Lives

Values

Speed

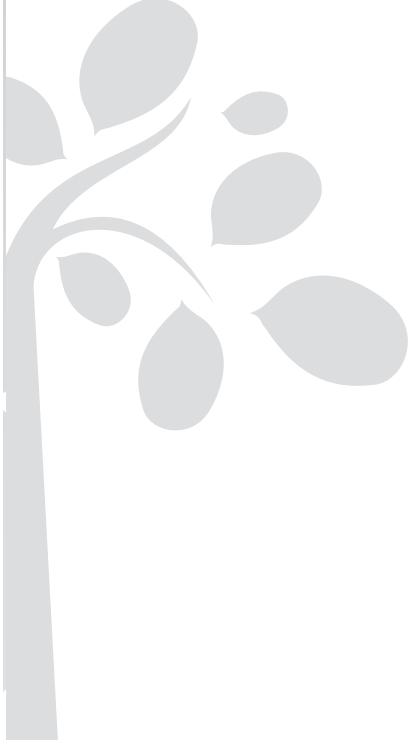
Proactive and swift action are our mantras

Innovation

Our constant approach at all levels is to seek better ways of listening, thinking and doing - making our offerings meaningful and impactful

Happiness

We are motivated by our customers' success
and happiness of our stakeholders



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Chairman's Letter

Dear Shareholders,

Bilcare's commitment to a more transparent and sustainable future is stronger than ever.

While the mission of your company continues to deliver customer centric innovation to the Global Pharmacos with wide range of its research based offerings, the consolidation and deleveraging activities persists to intensify. To fulfill our potential and aspirations, we need to operate in a new paradigm, making sustainability integral to our innovation and performance.

With its multi location manufacturing and R&D centers in Europe, USA and Asia and sales to over 120 countries, your company has emerged as a global leader with strong foundation in the solid dosage pharma packaging with 25% market share. Needless to mention- this business has a high entry barrier, considering the fact that entry into pharmaceutical domain takes minimum 2 to 3 years for qualification.

Our focus on value added products and services in the pharma sector along with strong research orientation has catapulted into incremental creation of knowledge based - Intellectual Property (IP). With 167 patent applications worldwide and 34 granted patents in the form of novel offerings further strengthens our business model.

Growth has its own challenges and if you are expanding prolific in overseas markets at a backdrop of sluggish global business scenario coupled with relatively shorter tenor of debt raised in Indian currency, it can be real a challenge! It is also evident that after growth comes consolidation as a natural process of sustenance.

Being a Company parented out of India, most of its debt is raised in Indian currency, with relatively shorter tenure which is a big disadvantage considering the current global business scenario. This has resulted in severe stress on operations, cash flows and creditor's commitment delays. Meanwhile, as a corrective measure, Bilcare has initiated a comprehensive restructuring and financial consolidation exercise.

In the ensuing year, the Company shall focus on reorganizing to suit its business requirements, improve margins and profusely arrest high debt through a series of deleverage drive.

As a process towards business reorganizing, the Company shall continue to stay focused on its core business by divesting all non-core business and commercialize ncID™ technology.

The world economy has slowed down during past few years. Sluggish market conditions

along with marathon downfall of the market sentiments coupled with policy paralysis at macro level has lead to rippling effect on the economy.

This economic turmoil has resulted in substantial demand slow down furthered by downfall of rupee compared to FOREX resulting from inflationary conditions has adversely affected supply side, leading to overall price rise.

In-spite of this, our European business EBIDTA margin has improved by twice. This is as a result of prudent product mix, operational efficiency and business restructuring that has been going on ever since the acquisition. However, our Asian business has suffered a severe setback during later part of the year. This was exacerbated due to cash flow crunch- a result of current market challenges. Sale of GCS business during the year may also be noted.

Our consolidated revenue stands at ₹ 3,547 Crores in FY 2013 against ₹ 3,642 Crores of FY 2012.

Consolidated EBIDTA stood at ₹ 391.8 Crores (11%) in FY 2013 against ₹ 484.0 Crores (13%) of FY 2012 due to lower contribution and higher fixed cost.

Q4 FY 2013 had set back on sales and margin in India and Asia, however, European business neutralized margin squeezed on annual basis and the overall consolidated gross margins for the year were 41.5% in FY 2013 as against 42.6% of FY 2012.

We are confident about Bilcare ncID™ Technology and have invested further to develop touch technology and on Government third party pilot projects. This unique technology has seen positive traction from Government of India's fertilizer

sector and from CSIR new millennium Indian technology leadership initiative. Similarly, our track-n-trace Technology was implemented for exports products of major pharmaceutical companies. Bilcare Technology also made in-roads to Bangladesh - one of most affected counterfeit markets in the world.

Growth reconfiguring is natural in life cycle of a growing Company, more so, for a global player like us. This surgical process may be painful but at the end will certainly yield healthy outcome.

With this note, I thank you all, customers, vendors & partners, bankers, regulators and team Bilcare for their continued confidence and support.

Regards,



Mohan H. Bhandari
Chairman & Managing Director



Board of Directors

Board of Directors

Mr. Mohan H. Bhandari – Chairman and Managing Director

Dr. Praful R. Naik – Executive Director

Dr. Volker Huelck

Dr. R. V. Chaudhari

Mr. Rajendra Tapadia

Company Secretary

Mr. Anil Tikekar

Registered Office and Works

1028, Shiroli, Rajgurunagar,
Pune - 410 505, India.

Auditors

M/s. R. L. Rath & Co., Pune

Cost Auditors

M/s. Parkhi Limaye & Co., Pune

Bankers

Multiple Banking for Term Debt and Working Capital facilities

Registrar & Transfer Agents

Link Intime India Pvt. Ltd.,
(Unit: Bilcare Limited)
Block No. 202, 2nd Floor,
Akshay Complex
Off Dhole Patil Road,
Pune – 411 001, India
Telefax: +91– 20 – 26163503
E-mail: pune@linkintime.co.in



Management Discussion Analysis

Global Pharmaceutical packaging market landscape

The global pharmaceutical packaging market continues to grow at a CAGR of 8% in the next five years as projected by pharmaceutical packaging market report. Further, the market is expected to be fueled by off-patenting of drugs and expanding the generics market. The global pharmaceutical industry is presently undergoing swift expansion, a lot of technology innovations and rapid advancements in manufacturing processes and integrations. These factors are foretelling growth of the pharmaceutical packaging industry globally. Due to increasing generic and contract manufacturing activities in Asian countries especially India and China, the emerging geographies are expected to register maximum growth.

The increasing demand for biologics will strengthen demand for innovative product packaging solutions in the global pharma packaging market. All these factors, along with the growing pharma industry, will continue to drive demand for packaging. However, the packaging industry will have to overcome challenges, such as the availability and price volatility of raw materials and changing health regulations, in order to meet increasing demand from the growing pharma industry.

The pharmaceutical packaging industry, as a provider of contract services, is not

surprisingly experiencing a corresponding market growth. As with the pharma industry, packagers are challenged to grow through innovation, by providing formats which satisfy pharma's expectation of enhanced drug integrity, safety and stability while delivering the convenience demanded by today's consumer.

Such growth is a clear indicator of the significant role pharmaceutical packaging will play in the pharmaceutical industry's quest for growth through innovation. Beyond that, pharma looks to packagers to improve bottom lines and brand distinction, a core focus of Bilcare 5 C offerings to the pharma sector worldwide.

Opportunities

According to Freedonia, world demand for drug packaging products will increase 6.4 percent annually. Most demand will remain in the developed economies of Canada, Japan, the US, and Western Europe. Prefillable syringes and parenteral vials will lead growth as new injectable therapies are introduced.

Risk and Concern Input Cost-

Given the volatility and rise of crude oil and polymer raw material cost, pressure on inputs cost for packaging players are going to fluctuate/rise, leading to passing of this cost to end customers.

Forex Risk-

A significant part of Bilcare's revenue, cost assets and liabilities are denominated in foreign currency. However, Bilcare's presence across geographies helps in providing natural hedging by offsetting purchase and sales transaction amongst various currencies

Other Concerns-

- Long credit cycle demand by customers adding to woes of cash flow
- Tight cash flow in present scenario leading delay in on time purchase of raw material

In addition pharmaceutical Industry may have to contend with several issues like:

- Effects of new product patent
- Drug price control
- Regulatory reforms
- Quality issues

Vantage Point

- Largest focused pharma packaging player in solid dosage market
- Focused around research and innovation in a business which often looked as commodity
- Global customers in 120 countries, multilocal manufacturing facility spread across US, Germany, Italy, Singapore, India.
- Have created gold standard in pharma packaging
- Diverse work force and best in class talent pool
- Unique business model- created blue ocean for itself, well appreciated by stakeholders, second to none in its class and competition

- Ahead of the curve- Bilcare nciD™ next generation track-n-trace and counterfeit technology having humongous opportunities.

Packaging Innovation

Over the years Bilcare has unilaterally focused on science based packaging with innovation as its forte and tried to address key challenges of the pharmaceuticals through its brandpac and optima services. Pharmaceuticals grappled with rising cost pressure from regulator, growing menace of counterfeit drugs, compliance issues and brand stagnation, surrogating and pass of by retailers has always appreciated innovative solution from Bilcare -leading to strong identity and recall by end patient not only in urban marketplace but also in rural segments. Today, Bilcare has approx 25% market share in solid dosage packaging and presence in more than 120 countries, making is second to none in this niche segment. Bilcare acquisition of Ineos has not only lead to access to global customer with sound footing across various geographies and over 120 countries but also leverage this relationship to value add and pass-on Bilcare innovation to its new customers.

Other area of packaging such as packaging films services (PFS) for FMCG and food segment, card solution (CS) and specialty films solutions (SFS) in Europe and US, now part of Bilcare AG has also seen significant growth and improvement in margin due to business restructuring, right mix and synergy. The EBIDTA margin of Bilcare's European business has doubled. However, the focus continues to be more on high margin pharma sector, where next generation nciD™ counterfeit technology is on the anvil.

Global Clinical Services

Bilcare Global Clinical Supplies is a leading provider of Clinical Trial Materials



(CTM) services to the pharmaceutical and biotechnology industries. From pre-formulation to global logistics and distribution, our integrated offerings are aimed at establishing critical success factor – speed-to-market. Our services bridge drug discovery with the manufacture of Clinical Trial Material with the speed and precision to accelerate market entry and drive profitability of large and mid-sized Pharma, Biotechs, Institutions and CROs.

Bilcare this year sold its Global Clinical Supplies (GCS) businesses in the US and the UK, to United Drug plc, a 1.7 billion revenue, a leading provider of healthcare services. As result of the sale, United Drug has acquired Bilcare's Global Clinical Supplies (GCS) businesses in the US and the UK for USD 61 million while Bilcare has retained its GCS business in Asia. Going forward, United Drug and Bilcare GCS Asia will work together to use their complementary resources to meet the needs of their global customers across US, Europe and Asia.

The business of GCS Asia for the year has grown by 46% and has acquired few more global customers for clinical services.

Bilcare Technology

Focus of Bilcare Technology for the year was to find inroads in both Government and private sector for implementation of track-n-trace and nciD™ solutions. This unique technology has seen positive traction from various Government sectors.

This year, we implemented a pilot project for fertilizer sector and embarked on CSIR new millennium Indian technology leadership initiative. Similarly, our track-n-trace Technology was implemented for exports products of major pharmaceutical and biotech companies, complying with DGFT norms. Bilcare nciD™ Technology also made inroads to Bangladesh the one of most affected counterfeit markets in the world.

Highlights of Financials

Standalone:

India Standalone revenue for the year FY 2013 stood at ₹ 727 Crores as against ₹ 759 Crores of FY 2012. The Asian business suffered a severe setback on sales and margin during later part of the year. This was further aggravated due to cash flow crunch and working capital shortage amounting to loss of ₹ 75 Crores.

As a consequence PBT reduced by 56% at ₹ 33 Crores as against ₹ 75 Crores of last year.

Consolidated:

Consolidated revenue stood at ₹ 3,547 Crores in FY 2013 against ₹ 3,642 Crores of FY 2012.

Consolidated EBIDTA is ₹ 391.8 Crores (11%) in FY 2013 against ₹ 484.0 Crores (13%) of FY 2012 due to lower contribution and higher fixed cost. The high margin GCS business sale in the US and Europe has also affected marginally to this year's performance.

Q4 FY 2013 had set back on sales and margin in India and Asia, however European business neutralized margin squeezed on annual basis and the overall consolidated gross margins for the year were 41.5% in FY 2013 as against 42.6% of FY 2012

Internal controls Systems and Adequacy

Company has proper and adequate internal control systems to ensure that its assets are safeguarded and that transactions are properly authorized, reported and recorded. The Company has also a system of internal audit and management reviews to ensure compliance with the prescribed procedures and authority levels.

Cautionary Statements

Statements in this management discussion and analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations.

Actual results may differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include significant change in political and economic environment in India or key markets abroad, applicable statutes, litigations, labour relations, exchange rate fluctuation and interest and other costs.

Unity in diversity - Human Resource

Today, Bilcare employs 2000 employees and talent pool spread across different geographies; with a diverse workforce coming from US, Europe, Singapore and India making it truly a multi dimensional and cultural organization with a quest of passion and innovation which unites all in team Bilcare to cater customers in over 120 countries.

Economy, Societal and Environmental Value – Corporate Citizen

Our community supports endeavors are diverse and focused on building robust, collaborative relationship in the social and business communities in areas we operate while augmenting our own understanding of the people and places we serve leading to sustainable approach to community supports that benefits everyone.