

Annual Report 2015-2016

Bilcare
Research





Vision

Transforming Health Outcomes, 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

Road- to- Recovery!

The past is behind us and the future is unknown! We are living in the practical present. Bilcare presently is all about *restructuring, realigning, recovering and rethinking to resolve our current challenges*. This calendar year in many ways would be the defining moment for the Company as it continues the journey towards a sustainable growth.

“As we embark on a new journey and set new goals, let us focus not just on routine matters but also transform all areas and ideas that focus not just on creating waves but also creating values for our society. Not just on immediate gains but also long term benefits, not just implementing best practices but also shaping partnerships and not just on building a bright future for our people but in being a bridge to a more united and prosperous world. For the success of this journey, it is important to view this with new eyes and new sensitivity. The constraints of the past are behind us and the foundations of the future are in place”,

These lines taken from recent historic speech of our Honorable Prime Minister given to US Congress at Capitol Hill is perhaps most apt to describe Bilcare present situation and the way forward.

Bilcare, incorporated in the eighties as a start-up epitomizes the story of India in many ways. We are in fact following the same course and in the present would be at early stage of – what India stands today. Team Bilcare has shown relentless effort and grit as we embark our recovery journey resulting-in two key milestones: (1) Business repositioning done during the year under review, resulted in substantial performance improvement. As a part of global reorganization and customer convenience, the manufacturing facility of Bilcare Singapore Pte. Ltd. was brought under Bilcare Research AG. Since then, it has already started delivering positive EBIDTA which was earlier under

stress. (2) As you read our balance sheet, you will see, there are tangible improvements with over 60% resolution of debt. We are confident to restructure the balance debt in the coming financial year.

We are committed towards implementing the best accounting practices and also set the highest compliance system adhering to global governance standards by adopting International Financial Reporting Standards (IFRS). For the next financial year, we are working on transition from I-GAAP to IND-AS which will bring the accounting at par with the international standards with utmost transparency and will also act as an impetus for adherence to systems and processes leading to productivity and growth.

Bilcare Pharma Packaging Innovations (PPI) through its research and manufacturing facility in US, Europe and Asia has emerged as a preferred service provider for the global Pharmaceutical manufacturers and is strengthening its value offering year on year. Today, we cater to over 1000 pharmaceutical manufacturers spread across over 120 countries who look forward to Bilcare's innovative solutions to resolve their brand growth challenges as well as their patients' latent needs.

Bilcare PPI, India has established a new product range for Alu-Alu (Cold Form Foils) over the last few years with a state-of-the-art manufacturing facility having a clear edge for its quality and design. This year, PPI, India has expanded its market reach for this product into Europe and US. Alu-Alu forms 15% of Global Pharma Packaging with Europe being a major market on the rise. Bilcare Research AG will market this product range in Europe and US, where it has existing footprints and a loyal customer base. In the ensuing year, this strategic move will give the desired momentum to the PPI operations in India.

During the year Bilcare GCS set up two overseas subsidiaries in the US and UK and added 38 new

customers, resulting in revenue growth by 45%. Comparator sourcing business showed a growth of 74% due to the very nature of its business, market potential and opening of the overseas subsidiaries.

Bilcare Technology is providing Cloud Based SAAS platform using leading edge technologies. This platform will provide brand owners with very comprehensive, scalable and reliable services for ACF, Track-n-Trace, and digital marketing. Bilcare Technology team is now focused on evolving the solutions with compelling economics to B2B clients along with valuable market insights and delight to end consumers.

Despite, working capital constraints resulting in reduced utilization and having a low operating capacity, our sustained efforts on restructuring and realignment of the capital structure has led to reduction in the loss of India standalone by INR 35.82 Cr and EPS improvement by 19.5%.

Recently, The Indian Institute of Packaging (IIP) published its vision document 2024 with collation of views from Industry stalwarts and academicians on Pharmaceutical Packaging that resonated Bilcare mission and therefore,

I feel, strategically we are on the right track. I firmly believe, "Packaging 3.0 will be a brand differentiator, personalized, with real time digital consumer interface, and at the same time will ensure sustainability by reducing, reusing and recycling".

"The road to recovery will not always be easy, but I will take it one day at a time, focusing on the moments I've dreamed about for so long"
- Amanda Lindhout.

With this quote, I conclude by thanking you all, shareholders, investors, customers, bankers, regulators, vendors, partners and employees for your continued support and trust.

Best Wishes,

A handwritten signature in black ink, appearing to read 'Mohan H. Bhandari', with a long horizontal line extending from the end of the signature.

Mohan H. Bhandari
Chairman and Managing Director



CORPORATE INFORMATION

Board of Directors

Mr. Mohan H. Bhandari

Mr. Rajendra B. Tapadia

Mr. Avinash S. Joshi

Dr. Sankarshan Basu

Mrs. Nutan M. Bhandari

Company Secretary & CFO

Mr. Anil Tikekar

Registered Office and Works

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

Auditors

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

Chartered Accountant

Secretarial Auditor

M/s. Shekhar Ghatpande & Co,

Practicing Company Secretaries

Bankers

Multiple Banking under the Security Trust Arrangement.

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

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MANAGEMENT DISCUSSION AND ANALYSIS

Pharma Packaging Industry- Future Landscape:

As per IMS study, global use of medicines will reach 4.5 trillion doses by 2020 amounting to \$1.4 trillion. The largest user countries will be the pharmerging markets, accounting for two-thirds of the global medicine volumes, mostly comprised of generic medicines and reflecting an increase in utilization of medicines due to broad-based health system expansions.

Volumes in developed markets will remain relatively stable and the trend towards original branded products as use of specialty medicines will become more widespread. Generics, non-original branded and over the counter (OTC) products will account for 88% of the total medicine use in pharmerging markets by 2020, and be the largest contributors for access to medicines in those countries. Medicines will include a vast array of treatments ranging from those that provide symptom relief available without a prescription to lifesaving genetically personalized therapies unique to a single patient. Disease treatments will be transformed by the increased number and quality of new medicines in clusters of innovation around cancer, Hepatitis C, autoimmune disorders, heart disease and an array of rare diseases. Technology will be enabling more rapid changes to treatment protocols, increasing patient engagement and accountability, shifting patient-provider interaction, and accelerating the adoption of behavior changes that will improve patient adherence to treatments.

As per Fredonia latest report, Pharmaceutical packaging market will reach more than \$80 billion by 2020, witnessing a CAGR around 6.50% between 2015 and 2020. North America and Europe together accounted for around 70% of the pharmaceutical packaging market, in terms of value.

Due to rising spending capacity of consumers in the region, the pharmaceutical market is projected to witness a steady growth rate in Asia-Pacific and Rest of the World.

Advancements in drug delivery technology driving the pharmaceutical packaging market:

The growth of injectable drug delivery and solutions market, contributes significantly to the pharmaceutical packaging market in developed countries. Other factors responsible for growth are the aging of the world population, rising health awareness among consumers, the trend towards 'on-the-go' lifestyles and many more. As with most other packaged goods, pharmaceuticals need reliable and speedy packaging solutions that deliver a combination of product protection, quality, tamper evidence, patient comfort and security needs. Constant innovations in the pharmaceuticals themselves such as, Blow Fill Seal (BFS) vials, Anti-counterfeit measures, Plasma Impulse Chemical Vapor Deposition (PICVD) coating technology, Snap off ampoules, Unit dose vials, two-in-one Prefilled vial design, Prefilled syringes and child-resistant packs have a direct impact on the packaging industry growth. Pharmaceutical packaging has to balance a host of complex considerations. Beyond the relatively simple issues such as developing good designs and communicating with customers, pharmaceutical packagers are governed by more pressing concerns including fighting counterfeiting, encouraging patient compliance, ensuring drug integrity and balancing child-resistance and accessibility for the elderly.

Five important trends are going to shape up future of Pharma Packaging in both the Industry as well as Individual players:

- Non-invasive permeation testing
- Counterfeit Packaging
- CR Packaging
- Eco Friendly Pack
- Digital pack talking to patient

Embedded in Bilcare mission statement and its 5C philosophy are the reflection of the above trends:

Bilcare has made many a break-through on the non-invasive permeation for high barrier films and foils enabling medicine to breathe and release gasses within their pack- an advanced well researched packaging. Besides, our R&D has also

worked on a multilayer, overt and covert counterfeit security feature for medicine packs using print type and font, UV ink and various type of anti-counterfeit material- perhaps widest range and variety in the industry.

Bilcare nCiD nonclonable technology not only has a fool proof counterfeit technology for medicine but also other features on drug compliance and drug digital facilitation for end patient users through mobile cloud based technology, thereby making us one of the most futuristic companies on packaging even on a digital front.

For the pharmaceutical industry, a huge hurdle to designing a cost-effective, eco-friendly blister package exists due to conventional biodegradable materials which have problems withstanding the mechanical, thermal and biological stress undergone during a blister's forming and its in-market life cycle. With ECOmply, Bilcare has overcome this obstacle through an innovative formulation that breaks down only under favorable anaerobic conditions typically found in landfills. ECOmply films have the same thermoforming parameters as standard PVC films.

Risk and Concern:

The Company is subjected to various geo-politicos and external environmental risk affecting the financial health. Raw material input cost, crude prices, currency fluctuation; interest burden and financial costs are some of the major risks. Further Industry slow down due to regulator new policies such as price cap on drug formulation by NPPA and ban on fixed dosage drugs (FDC) also affects the packaging material suppliers.

Pharma Packaging Innovation (PPI):

As per IMS, Blister packaging comprising films and foils is estimated around USD 6.3 Bn. 70 % of drugs globally are orals and within orals, appox 70% drugs are oral solid dosage (OSD). Out of 49% OSD, 70 % are in blisters and 30 % in aluminum strips. Blister market is further fragmented with 40% in mono PVC, 35% in barrier (PVdC/Aclar), 10% in PP/other base films and 15% in cold form /Alu-Alu.

Over the years, Bilcare has maintained its market share dominance over the Blister Packaging- Solid Oral Dosage (OSD) market with many international research analysts even ranking us at a leading position.

Bilcare Research AG which constitutes more than 80% of revenue caters to Americas, European Union and Asia Pac including BRICKS nations and CIVETS (Columbia, Indonesia, Vietnam, Egypt, Turkey, and South Africa). Further, through Bilcare Research Singapore Pte. the high growth Chinese markets are also now being brought in the foray. In order to support the market growth and its customers Bilcare Research AG invested 15Mn Euro this year in a state-of-the-art extrusion- and stenter-line at the manufacturing site in Staufen, Germany. During the year with the realignment of manufacturing facility in Asia, i.e. (Bilcare Research Singapore Pte.), it also expanded the capacity at its premises in Bötzingen, Germany.

Looking at growth opportunity in the US market, Bilcare Research Inc. made an investment into a new laminator at its Wilmington, DE facility. The new investment marks a significant milestone in offering integrated solutions and supply chain advantages for the global pharmaceutical industry. It will allow Bilcare to offer best in class delivery of Aclar® laminates for stability packaging, line trial samples as well as full commercial volumes. Bilcare's range of Aclar® laminates provides the highest moisture barrier of any films of its type.

Domestic pharmaceutical market grew at a CAGR of 12% year-on-year basis in February 2016. However there were numerous constraints on the price cap on 376 drugs by NPPA and later this year the FDC ban on 344 drugs. This has led to the domestic market being conservative for barrier packaging films - the space Bilcare operates. With the Government of India intervening on the issue of anti-dumping with a ruling in favor of the pricing of the films & foils it is expected that the growth will be revived.

PPI India has launched the Alu-Alu product whose large market potential overseas will be tapped through Bilcare Research AG marketing channel in the coming years which will be the turnaround for the revenues of Bilcare India.

Among other innovations, Bilcare has been instrumental in helping packaging engineers optimize blister film barrier properties to match drug formulation requirements through their patented service - BilcareOptima™.

During the financial year, the company filed 2 new Patent applications related to its innovative products and technologies and 1 Patent applied earlier was

granted. Research & Development activities have been ongoing and some of the key highlights are as under:

- Developed an overt watermark anti-counterfeit feature for the Alu-Alu product by reverse printing methodology and using the UV ink.
- Supplied Packaging film for the stability study of the ophthalmic tablet for one of the reputed customers and modified the heating system of heat seal lacquer coating machine to minimise solvent residual in tune of lesser than the permissible limit.
- Developing the process for making Paper/Foil lamination and then heat seal lacquer coating in one pass on state of the art triplex machine.
- Installed pinhole detection system on cold form machine to detect pin holes in CFB film, which helps in assuring pin hole free film for packing highly sensitive medicines.
- Installed defect detection system on triplex laminator and advanced slit to slit CFB with in line tag detector that helps in defect free material supplies.

Global Clinical Services (GCS):

Clinical trial logistics is a fast-growing industry which largely depends on new technologies, market conditions and globalization of the clinical trial infrastructure. According to the forecast made by Evaluate Pharma, in the next 5 years the clinical trials market will show a stable but low growth of 2-2.5% per year, while being accompanied by a significant shift in the operational structure of cold-chain logistics and clinical trial supply. Biopharma Cold Chain 2012 Sourcebook says in 2016 up to 65% of growth in clinical research will come from studies conducted in emerging market counties: Asia Pacific, Eastern Europe and South America. The demand for bio pharma cold chain logistics services is growing, which in turn is generating the demand for new packaging and temperature monitoring technologies in a continuing effort to reduce pass-through costs.

Comparator Sourcing has doubled within the last three years. A recent report published by the Institute for Healthcare Informatics forecasts that the surge in cancer drug innovation is projected

to continue over the next five years, with oncology currently already making up 25% of the global late-stage pipeline. As the majority of drug candidates are being studied against the existing standard of care, the need for secure and transparent sourcing of comparator drugs and non-investigational medicinal products (NIMPs) on a global scale is likely to rise significantly.

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In the recent past, the Global Clinical Supplies business has initiated strategies to add more business portfolios to its kitty which mainly comprises of new Products and Services like Pharma product acquisition and sales in the niche and rare drugs segment, pharma dossier sales and pharma in-licensing & out-licensing to name a few. These business initiatives will be advantageous to strengthen the business relationships with current set of clients and also will be instrumental to open up vistas for new business and tap new geographies thereby bringing the various forms of requirements under one roof of the CTMS domain.

Bilcare GCS has received several accolades and international recognition from various international organizations, such as GHP Magazine, UK, APAC Insider magazine, UK, World Leadership Congress, Dubai, ABP New Channel health award for its service quality and contribution to the industry.

NCiD Technology:

Counterfeit has plagued almost every Industry and its challenges have been on the rise. Economic Times based on its survey, in a recent news article mentioned some alarming facts viz:

- Estimated Global Economic impact of counterfeiting in 2015 is USD 1.7 Trillion
- 44.4% increase in estimated loss to 7 manufacturing industry sectors due to counterfeiting from 2012 onwards
- Indian exchequer lost INR 40,000 Cr in 2014 due to illicit trade

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Financial Highlights:

Standalone -

Despite, working capital constraints and having low operating capacity, our sustained efforts on restructuring and realignment of capital structures has led to a reduction in the loss for the year at INR (147.87) Cr and an EPS improvement by 19.5%. Though there was a sales drop of 23% from last year the gross margins were being maintained.

There was an improvement in the Profit/(Loss) before tax level of INR 36.5 Cr. (around 17%) largely due to interest impact on partial restructuring thereby bringing the loss down to INR 175.46 Cr from INR 211.98 Cr of last year. The Cash loss was reduced by INR 30 Cr. (around 40%).

Consolidated

Consolidated revenue for the quarter ended Q4FY16 stood at INR 655.19 as compared to INR 649.63 of the corresponding quarter, previous year (Q4FY15), showing a marginal improvement.

The loss at PBT level significantly reduced for the quarter to INR (7.64 Cr.) and for the year to INR (130.04 Cr.) showing an improvement in performance by INR 65.56 Cr. (about 30 %). Similarly the Cash Profit for the year ended stood at INR 17.86 Cr with a marked improvement in the EPS at INR (69.49).

Internal Controls Systems and Adequacy

The Company continues its endeavor of improving and upgrading its internal systems both in terms of bringing-in new teams and revamping the existing software infrastructure. This change will ensure accounting practice and governance at par with International standards and global system, process and compliance in place.

Cautionary Statements

Statements in this Management Discussion and

Analysis describing the Company's objective , projection, estimates, and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual outcome may differ substantially or material from those expressed or implied. Important developments that could affect the Company's operation include significant changes in the political and economical environment in India or overseas in key markets, applicable statutes, litigation, labor relations, exchange rate fluctuation, interest and other costs.

Human Resource:

New Business Leaders were inducted in US, Singapore and Bilcare Technology and teams across region, and geographies are aligning to go beyond boundaries to create synergy aimed at customer convenience and enhance performance and productivity. This approach and structure initiated will effectively utilize human resource capital and achieve leadership dominance in the ensuing years.

Corporate Citizen

Bilcare Corporate Citizen program stems from its very vision, mission and core value and is much beyond the statutory mandate of the recent years. Gram swatcha, water storage, primary school education aid, repair of old schools under Bilcare schemes , teachers, training, SSY Training, health care camp, library/education on wheels were few programs initiated this year.