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Cadila Healthcare Limited

5th Annual Report 1999-2000

**Zydus
Cadila**

**dedicated
to** *life*

In our effort to create a healthier world

Providing total healthcare solutions ranging from formulations, bulk drugs, biologicals, vaccines, diagnostics, herbals, animal healthcare to cosmeceuticals.

In our desire to innovate through research

Optimising lead for a new class of compounds among lipid lowering agents, for which patent has been filed. Developed innovative processes for several new generation products including Celecoxib, Atorvastatin, Carvedilol, Meloxicam, Pantoprazole, Sildenafil, Lamivudine etc.

In our urge to climb new growth peaks

One of the fastest growing Indian healthcare companies with a Compounded Annual Growth Rate of over 21.24 per cent in sales and over 72.12 per cent in its net profit since 1995-96. Currently ranked the 5th largest healthcare company in India as per ORG (MAT- March 2000).

In our aspirations to shape tomorrow's world

Investments in specialised technology such as vaccines, biologicals and transdermal drug delivery systems.

In our vision to lead

We aim to be one of the top three healthcare companies in India by 2005, a leading Asian player by 2010 and a global player by 2020.

In our values and our core belief

We believe in offering products of the highest quality and supporting the hands that heal with innovative contributions in patient-care.

We are dedicated to life

Zydus Cadila, one of India's leading healthcare companies.



Cadila Healthcare Limited

BOARD OF DIRECTORS

Shri Ramanbhai B. Patel
Chairman & Managing Director

Shri Pankaj R. Patel
Managing Director

Dr. Manubhai A. Patel
Director

Shri Mukesh M. Patel
Director

Shri Pranlal Bhogilal
Director

Shri Sharvil P. Patel
Director

Smt. Taraben R. Patel
(Alternate Director to Shri Sharvil P. Patel)

COMPANY SECRETARY

Shri D. D. Sanghavi

BANKERS

Bank of Baroda
State Bank of Saurashtra
Corporation Bank
Global Trust Bank Limited

AUDITORS

R. R. Patel & Co.
Mukesh M. Shah & Co.
Chartered Accountants

REGISTERED & CORPORATE OFFICE

'Zydus Tower', Satellite Cross Roads, Ahmedabad - 380 015.

WORKS

Formulation Unit : S. No. 417, 419 & 420, Village Moraiya, Ta. Sanand, Dist. Ahmedabad.

Zydus Research Centre : S. No. 396/403, Village Moraiya, Ta. Sanand, Dist. Ahmedabad.

GRD Plant : 5504, GIDC Estate, Phase III, Vatwa, Ahmedabad.

Bulk Drug Unit : 291, GIDC Estate, Ankleshwar.



Ramanbhai B. Patel
Chairman

Five decades of innovations in healthcare

Cadila began as a small pharmaceutical company nearly five decades ago. Today, it is one of the leading healthcare companies of India. The strong foundation, expertise and resources have helped it explore, innovate and seek new avenues for growth.

The diverse endeavours in the field of healthcare reflect the measure of its success.

Zydus Cadila's mission to create a healthier world is supported by a wide ranging presence in -

- formulations,
- biologicals,
- vaccines,
- bulk drugs,
- animal healthcare,
- diagnostics,
- cosmeceuticals and
- herbals.

It also underlines Zydus Cadila's core belief of being dedicated to life in all its various aspects.

Cadila
Healthcare Limited

Zydus



Dear Shareholder,

Zydus Cadila has taken a momentous step in the new millennium. After five years of speedy growth, we are now poised to break into the top league. It's a pleasure to have you join us, as we race ahead on this path of value creation.

Zydus Cadila has been one of the dominant players in the industry. Our expertise of 49 years in the industry and the accelerated growth over the last five years, bespeak of a sound future that lies ahead. The figures speak for themselves.

With a growth-bound plan, Zydus Cadila has been growing at the Compounded Annual Growth Rate of over 21.24 per cent in its sales and over 72.12 per cent in its net profit since 1995-96.

Market leadership in the Indian healthcare industry has largely depended on three pivotal strengths ~ a strong product portfolio, excellent brand management skills and a high performing sales force. Zydus Cadila's successful track record emanates from these strengths.

Our product portfolio comprises brands with a strong equity. The top 8 brands of Zydus Cadila are among the top 300 brands in the Indian healthcare industry (ORQ March 2000). Out of the 206 therapeutic segments, in the healthcare industry, the

top 30 segments account for over 63% in terms of sales. Zydus Cadila has a strong presence in 26 of these 30 segments.

Our growth in the coming years will spring from new technologies and innovative healthcare solutions. To this end we have set up state-of-the-art manufacturing facilities at Moraiya. This is the largest plant of its kind at a single location. We have also invested in new technologies such as vaccines, transdermal therapeutic systems and biologicals.

Our new research centre, which will be our catalyst for progress beyond 2005, is all set to go on stream. The research team will be working in the areas of process, product development and discovery research. We have also filed a patent for a new class of compounds among lipid lowering agents and are now in the process of optimising the lead.

As we converge into a seamless world of healthcare, there would be a greater sharing of expertise and more collaborative efforts to create a healthier world. The concept has already taken root at Zydus Cadila and we seek to grow with our partners in progress - Byk Gulden of Germany, Ethical Holdings of U.K., Korea Green Cross Corporation of Korea, Swiss Serum and Vaccines Institute of Berne and Aventis Behring.

With experience backed by strengths and expertise, I believe that we can successfully address ourselves to the task of building a model healthcare organisation of the future. One that is inventive enough to create new value creation strategies and fleet-footed enough to stay ahead of the change curve. This has always been the cornerstone of our success and it will continue to be so as we power our way with innovative contributions in healthcare.

Sincerely yours,

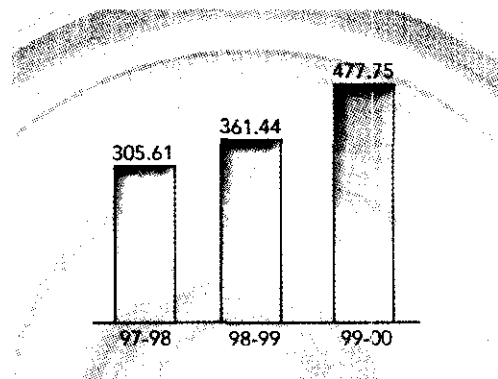
Pankaj R. Patel
Managing Director

Cadila**Zydus****Performance highlights****Operational highlights**

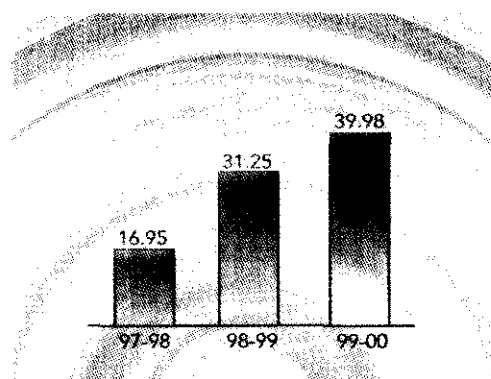
- Excellent performance improves industry rankings. The company which was earlier ranked sixth, is currently the 5th largest healthcare company in India. (ORG MAT March, 2000)
- Entered into a technical collaboration with Ethical Holdings of U.K. to manufacture and market transdermal patches in India.
- The new formulation manufacturing facilities at Moraiya went on stream in March 1999. The plant is the largest of its kind at a single location. The unit has been recognised as a 'Prestigious Unit' by the Govt. of Gujarat. This recognition makes the company eligible for Sales Tax deferment upto 75% of the eligible capital investment in the project.
- The new state-of-the-art research centre at Moraiya is all set to go on stream. The Company also filed a patent for a new class of compounds among lipid lowering agents.
- Entered into a 50 : 50 Joint venture with Ambalal Sarabhai Enterprises (ASE) to form India's leading animal healthcare company. The JVC, 'Sarabhai Zydus Animal Health' became operational from April 2000.
- Launched block-buster molecules Atorvastatin (Atorva), Lamivudine (Lamidac 100), Celecoxib (Zycel), Meloxicam (Mel-OD) and Carvedilol (Carvil). The company expects to launch Sildenafil Citrate under the brand name Penegra shortly. All these molecules were synthesised through in-house R&D efforts.

Financial highlights

**Sales turnover zooms by
32.18% to Rs. 477.75 crore**



**Net profits* up
27.94% to Rs. 39.98 crore**



* (Before prior year's tax adjustments)

Cadila
Healthcare Limited

Zydus

Corporate Kaleidoscope

"The limits of our growth lie in our imagination. The richer and more vibrant it is, the more expansive and dynamic our growth will be"

...**Pankaj R. Patel**, Managing Director

Zydus Cadila is poised at an interesting juncture. Having created the conditions favourable for accelerated growth, the group prepares to catapult itself into the top league with new block-buster products and a strategic gameplan that includes new research products and an entry into the highly regulated markets.

Ranked the 5th largest company in India (Source : ORG MAT, March 2000), Zydus Cadila has been on a growth path. Outpacing the industry growth rate, Zydus Cadila grew at the rate of 32.18 per cent in 1999. If Zydus Cadila's galloping growth were to be summed up in two words, they are most likely to be 'strategic' and 'focussed'. The strategy has been amply clear – leverage brand marketing and new product development skills to step up growth, concentrate on fast growing therapeutic areas, step up research strengths and collaborate for new business opportunities through joint ventures and strategic alliances. The focus or vision, which seems closer at hand, is to become one of the top three companies in India by 2005, a leading Asian player by 2010 and a global player by 2020.



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Holistic view ~ Brand management to therapy management

Zydus Cadila has a strong presence in wide ranging therapeutic areas and has a portfolio of over 100 brands, some of which like Ciprobid, Oxalgin DP and Ocid are among the leading brands in their therapeutic segments. Moving beyond brand management, Zydus Cadila's strategic focus has also been on therapy management. The group's new products over the last two years have been in the areas of cardiovasculars, gastrointestinal, biologicals, pain management and anti-infectives. These therapeutic areas are also among the fast growing segments in the healthcare industry.

Reducing the cycle time between innovation and new product launch

With considerable skills in process development, the company has developed innovative processes for several block-buster molecules. This has not only ensured backward integration in the formulation business but has also helped in introducing many advanced drugs in India. The most recent being Atorva (Atorvastatin) and Zykel (Celecoxib). The group has also synthesised the drug for erectile dysfunction Sildenafil

Citrate which will be launched under the brand name 'Penegra'. The Company has developed innovative processes for a host of new generation products such as Atorvastatin, Celecoxib, Rofecoxib, Pioglitazone, Rosiglitazone, Pantoprazole Sodium, Meloxicam, Carvedilol, Losartan Potassium, Glimepiride, Lamivudine etc.



Operational excellence with high-tech processes will be the cutting edge

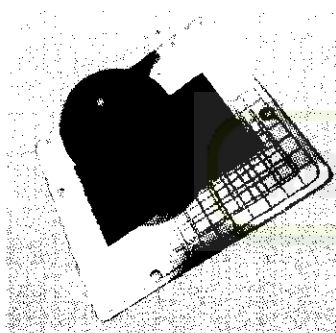
Zydus Cadila's manufacturing plant is spread over 1,36,000 square metres. If the sheer size is compelling, the features in-built in the plant are equally impressive. Besides formulation manufacturing facilities, the plant also houses the vaccine plant. With several distinctive features, the plant is a highly sophisticated one. It is also one of the largest of its kind at a single location.

Better networking critical for marketing success

An important component for marketing success, the distribution network with 25 C&F agents, 2200 stockists and 1,10,000 retailers is one of the strongest in the industry. The vast chain enables the group to deliver a new product, across the country within 72 hours.

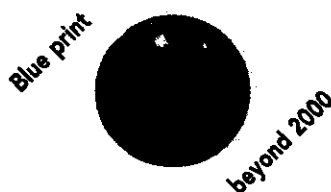


As a pharmacist I'm looking forward to the coming decade with hope and optimism. I think the opportunities and achievements through pharmaceutical research will be phenomenal"
 ...**Ramanbhai B. Patel**, Chairman.



Zydus Cadila's research programme encompasses process research and discovery research. The group has filed a patent for a new class of compounds among lipid lowering agents. Plans to commercialise an innovative bio-tech product are also in the pipeline. A team of more than one hundred research scientists, working in the areas of medicinal chemistry, pharmacology, biotechnology, phytomedicine and clinical developments, spearheads the group's research programme.

Collaborative research programmes with leading national institutes and laboratories are also under progress. In an agreement with Tamil Nadu Veterinary University, Zydus Cadila will be developing a new generation anti-rabies vaccine. In a tie-up with Regional Research Laboratory of Jammu, the group is developing an Enzymatic Resolution for strengthening its chiral molecule research programme.



In the years ahead, the search for new routes to dominance in a highly competitive pharmaceutical industry will be an ongoing one. Beyond 2000, Zydus Cadila will focus on its growth drivers of continuous innovation, holistic approach to healthcare, high technology and combined expertise of its people. The group has evolved a growth strategy that will leverage its existing strengths and build new capabilities.

Short-term strategies

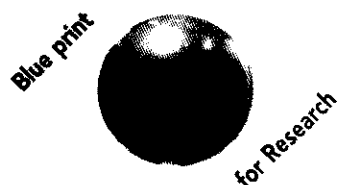
- Focus on 'branded generics' growth in the domestic market
- Leverage existing process synthesis and reverse engineering capabilities

Medium-term strategies

- Step up formulations export/ establish overseas operations in attractive export markets
- Target generic markets in developed countries
- Focus on the domestic OTC markets

Long-term strategy

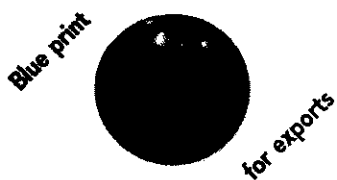
Seek attractive options for new drug discovery and development



In the product patent era, research capabilities will make a critical difference. With an investment of over Rs. 45 crore in a new state-of-the-art research centre and a focussed research programme well underway, Zydus Cadila's commitment to innovations in healthcare has taken a concrete shape.

Enhancing Research capabilities

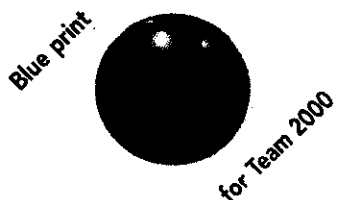
- Focus on core therapeutic areas of cardiovasculars, pain management and anti-infectives and identifying leads in these areas.
- Undertake joint or collaborative research with leading Indian Research Institutes.
- Establish world class development capabilities in India.
- Develop early stage drug discovery/research capability.



Zydus Cadila markets its products in various dosage forms in over 40 countries worldwide including Russia and other CIS countries. The company has a strong global presence with over 433 product registrations. Inroads into new high margin markets and multiple product registrations in different countries will be the focus areas as the group consolidates its global presence.

Strengthening global presence

- Focus on the high margin export markets.
- Consolidating the branded business in Russia, Sri Lanka, Kenya, Czech Republic, Romania, Mauritius, Myanmar and Cambodia.
- Strengthening Product Registration Capabilities for multiple product registrations in different countries.
- Focus on South East Asian markets of Philippines, Thailand and Singapore.
- Setting up subsidiaries in South Africa and New Zealand.



Over the next 5 years, 120 molecules worth US\$ 15 billion are going off-patent (Source:IMS). This will open up tremendous opportunities for marketing of generics by the globally cost-competitive Indian Pharma companies. Zydus Cadila has set up a special taskforce for international business development that will focus on the highly regulated markets such as North America, Western Europe, Japan, Australia and New Zealand for marketing of generics and new drugs. The taskforce 'Team 2000' will concentrate its efforts on securing ANDA and Regulatory compliance for quick registration in these markets which offer immense potential in terms of their size and their position in the global pharmaceutical markets.

International business development

- Capitalise on new manufacturing facilities and Research for the filing of ANDA's. (Abbreviated New Drug Applications)
- Target products in growing therapeutic segments.
- Create recognition by being an early entrant.
- Ensure competitive advantage and strategic control through accessing self-manufactured bulk actives.
- Filing of Drug Master Files and Certificates of Suitability to capitalise on the bulk active business in US/Europe.
- Tie-up for product development in the U.S.A.
- Product Development in India and technology transfer to the U.S.A.

DIRECTORS' REPORT

To the members,

Your directors have the pleasure in presenting the Fifth Annual Report of the Company together with audited Statements of Accounts for the year ended 31st March, 2000.

FINANCIAL RESULTS

	(Rs. In thousand)	
	1999-2000	1998-99
Sales and other Income	4791765	3625766
Profit before Depreciation, Interest & Taxation	714177	465533
Less : Depreciation & Misc.Expenditure written off	108987	50315
Less : Interest and financial charges	152903	52697
Profit before Taxation	452287	362521
Less : Taxation	52500	50000
Net Profit for the year	399787	312521
Less : Prior years' tax adjustment	(22935)	(8926)
Add : Balance brought forward	133822	112199
Profit available for appropriation	510674	415794
Your directors appropriate the same as under :		
Transfer to Debenture Redemption Reserve	32400	27500
Dividend		
Interim dividend on Equity Shares	0	78147
Proposed final dividend on Equity Shares	137871	11164
Proposed dividend on Preference Shares	2400	1900
	140271	91211
Corporate dividend tax on distributed profit	15430	9252
	155701	100463
Transfer to General Reserve	200000	154009
Balance carried forward to next year	122573	133822
	510674	415794

SUB-DIVISION OF EQUITY SHARES

During the year under report, Equity Shares with a nominal value of Rs. 10/- each in the capital of the Company were sub-divided into two Equity Shares of Rs. 5/- each pursuant to Section 94 of the Companies Act, 1956 after obtaining the approval of the members at the Extra Ordinary General Meeting of the Company held on 5th January, 2000. The sub division of Equity Shares was made looking to the current market trend and to encourage the small investors to invest in the Company's Public Issue of Equity Shares.

PUBLIC ISSUE OF EQUITY SHARES

During the year under report, the Company had made a Public Issue of 1,48,86,000 Equity Shares of Rs. 5/- each which includes a Book Built Portion of 1,33,97,400 Equity Shares of Rs.5/- each and a Fixed Price Portion of 14,88,600 Equity Shares at a premium of Rs. 245/- per share. Public Issue has received an excellent response from both institutions as well as retail investors.

The allotment in respect of Book Built Portion of Equity Shares was made on 29th February, 2000, while Fixed Price Portion was made on 16th March, 2000. The Equity Shares of the Company will be listed on Ahmedabad Stock Exchange, Bombay Stock Exchange and National Stock Exchange of (India) Ltd.